Original Application

Meadowview ASC, LLC

CN1807-028

CERTIFICATE OF NEED APPLICATION

FOR

MEADOWVIEW SURGERY CENTER

The Establishment of a Multi-Specialty Ambulatory Surgical Treatment Center

Sullivan County, Tennessee

July 13, 2018

Contact Person:

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State of Tennessee
Health Services and Development Agency
Andrew Jackson Building, 9th Floor, 502 Deaderick Street, Nashville, TN 37243
www.tn.gov/hsda Phone: 615-741-2364 Fax: 615-741-9884

CERTIFICATE OF NEED APPLICATION

SECTION A: APPLICANT PROFILE

1. *Name of Facility, Agency, or Institution*

Meadowview ASC, LLC
Name

2033 Meadowview Lane, Suite 210 — Street or Route
Sullivan — County

Kingsport — City
TN — State
37660 — Zip Code

Website address: N/A

*Note: The facility's name and address **must be** the name and address of the project and **must be** consistent with the Publication of Intent.*

2. *Contact Person Available for Responses to Questions*

Jerry W. Taylor — Name
Attorney — Title

Burr & Forman, LLP — Company Name
jtaylor@burr.com — Email address

222 Second Ave. South, Suite 2000 — Street or Route
Nashville — City
TN — State
37201 — Zip Code

Attorney — Association with Owner
615-724-3247 — Phone Number
615-724-3248 — Fax Number

NOTE: ***Section A*** is intended to give the applicant an opportunity to describe the project. ***Section B*** addresses how the project relates to the criteria for a Certificate of Need by addressing: Need, Economic Feasibility, Contribution to the Orderly Development of Health Care, and the Quality Measures.

SECTION A: EXECUTIVE SUMMARY

A. Overview

Please provide an overview not to exceed three pages in total explaining each numbered point.

1) Description – Address the establishment of a health care institution, initiation of health services, bed complement changes, and/or how this project relates to any other outstanding but unimplemented certificates of need held by the applicant;

The applicant seeks authorization for the establishment of a new multi-specialty ambulatory surgical treatment center (ASTC). The proposed ASTC is planned to have 3 multi-use operating rooms and no designated procedure rooms. The ASC will be owned entirely by surgeons performing cases at the ASTC. It will have an open medical staff so that non-investing surgeons in the area who are credentialed by the ASTC may perform cases there.

2) Ownership structure;

The applicant and proposed licensee is Meadowview ASC, LLC. Meadowview ASC, LLC is a recently formed Tennessee limited liability company, which was formed for the purpose of owning the proposed surgery center. Its ownership will consist of surgeons affiliated with Holston Medical Group, P.C. ("HMG") and is open to investment by additional surgeons in the community. The only initial member of the company for the purpose of legal formation is Dr. Scott R. Fowler, M.D. Additional HMG and community surgeons will invest in the ASC in the future following CON approval. Currently, 18 surgeons affiliated with HMG have signed a Letter of Interest to invest in the ASTC.

HMG is a multi-specialty physician practice group comprised of 118 physicians and 65 mid-level practitioners. HMG has 11 clinical practice locations in Tennessee and an additional 8 clinical practice locations in Virginia.

3) Service area;

The proposed service area for Meadowview ASC consists of Sullivan and Hawkins Counties. Approximately 81% of HMG's patients are residents of these counties.

4) Existing similar service providers;

There are 11 ASTCs located in Sullivan County. Of these, 5 are multi-specialty surgery centers and 6 are single-specialty surgery centers. There are no ASTCs in Hawkins County.

In 2017 the average utilization of all surgical rooms in licensed ASTCs was 1,245 cases per room. The average utilization of operating rooms ("ORs") in licensed ASTCs was 772 cases per room. The average utilization of procedure rooms ("PRs") was 1,743 cases per room.

Every ASTC in the service area has controlling ownership interests held by a hospital, or where it does not have a controlling interest, the hospital has reserved powers giving it *de facto* control over insurance contracting and other important matters. While physician and hospital jointly-owned ASTCs are a very common and attractive model, there is a need for a physician controlled ASTC in the service area.

5) Project cost;

The total estimated project cost (not including the HSDA filing fee) is $9,773,127. The largest single expenditure is the imputed cost of the leasehold interest over the 10 year initial term, at a total lease cost of $4,844,049. The lease includes all space renovation costs amortized over the life of the lease. The next largest single component is fixed and movable equipment (purchased and leased) in the amount of $3,499,927.

6) Funding;

Funding is provided through a combination of a loan from HMG, cash from investors, and operating revenues.

7) Financial Feasibility including when the proposal will realize a positive financial margin; and

The surgery center will be financially feasible, and will realize a positive financial margin in Year 1 and thereafter.

8) Staffing.

In Year 1 the surgery center will be staffed by 13.8 FTE direct patient care providers and an additional 4 FTE contractual staff (not including the surgeons). The facility will employ an additional 4.9 FTE non-patient care staff.

B. Rationale for Approval

A certificate of need can only be granted when a project is necessary to provide needed health care in the area to be served, can be economically accomplished and maintained, will provide health care that meets appropriate quality standards, and will contribute to the orderly development of adequate and effective health care in the service area. This section should provide rationale for each criterion using the data and information points provided in Section B. of this application. Please summarize in one page or less each of the criteria:

1) Need;

The need for the proposed physician-controlled ASTC is based on both the high utilization of existing ASTCs in the service area, and the fact there are no solely physician-controlled ASTCs in the service area.

The 2017 average utilization of ASTCs of 1,245 cases per licensed ASTC surgical room far exceeds the State Health Plan (SHP) 70% capacity benchmark, and that has been the case for several years:

Year	ASTC Cases per Room	% of Need Threshold
2017	1,245	141%
2016	1,027	116%
2015	958	108%

The above utilization also reflects growth of 30% over the 2 year period. The service area ASTCs are well utilized and are experiencing strong growth.

As reflected in Attachment Section C, Need, CON Standards, 1 a total of 48,560 surgical cases were performed in the 11 licensed ASTCs in 2017. Even with no future growth this outpatient surgery volume is enough to support 60 outpatient surgical rooms at the 70% capacity threshold of 884 cases per room. There are currently only 39 ASTC-licensed surgical rooms. The addition of 3 new ORs will still leave plenty of volume for the existing ASTCs to operate at healthy utilization levels.

There is a special need in the service area for a physician controlled ASTC. Every ASTC in the service area has controlling ownership interests held by a hospital, or where it does not have a controlling interest, the hospital has reserved powers giving it *de facto* control over insurance contracting and other important matters. While physician and hospital jointly-owned ASTCs are a very common and attractive model, there is a need for a physician controlled ASTC in the service area.

Since the merger of Wellmont Health Systems and Mountain States Health Alliance into Ballad Health, there is now only one hospital system operating in the entire upper East Tennessee region, thereby reducing competition. Since all ASTCs in the market are controlled by what are now Ballad hospitals, consumers and physicians have little choice as to the ultimate provider of ambulatory surgical services. Ballad may be considering a sale of its majority interests in area ASTCs to another heath care system. But even if this were to occur, there would still be no physician-controlled ASTCs in the service area, and consumer and provider choice would still be limited.

As a physician-controlled facility, Meadowview will facilitate several enhancements to the health care delivery system in the area, and resulting benefits to patients and physicians. These include (1) value-based contracting with third party payors; (2) innovative and mutually beneficial arrangements with Medicare/CMS such as gain-sharing arrangements; (3) lower pricing structures which decrease out of pocket costs to patients; and (4) more physician control over management of the surgery center.

2) Economic Feasibility;

The proposed ASTC is economically feasible. The project costs are commercially reasonable. Most of the project cost consists of the imputed cost of the leasehold interest which is the total amount of lease payments over the initial 10 year term of the lese. These costs will be paid out of the operating revenues of the facility. The out of pocket capital costs will be funded through a combination of a loan from HMG,

cash from investing surgeons, and operating revues. The surgery center will realize a positive financial margin in Year 1 and thereafter.

3) Appropriate Quality Standards; and

Meadowview ASC will be licensed by the Tennessee Board for Licensing Health Care Facilities. It will be accredited by the Accreditation Association for Ambulatory Health Care (AAAHC). Meadowview ASC will meet or exceed all licensing and accreditation standards for quality of care.

Meadowview ASC will have a management services agreement with HMG Medical Management, LLC. HMG Medical Management, LLC, has extensive experience in managing surgery centers, having managed both Holston Valley Ambulatory Surgery Center and Sapling Grove Ambulatory Surgery Center since 2006.

4) Orderly Development to adequate and effective health care.

This proposal will have a positive effect on competition, consumer and provider choice, and heath care costs. It will thus contribute to the orderly development of adequate and effective health care.

There is a special need in the service area for a physician controlled ASTC. Every ASTC in the service area has controlling ownership interests held by a hospital, or where it does not have a controlling interest, the hospital has reserved powers giving it *de facto* control over insurance contracting and other important matters. While physician and hospital jointly-owned ASTCs are a very common and attractive model, there is a need for a physician controlled ASTC in the service area.

Since the merger of Wellmont Health Systems and Mountain States Health Alliance into Ballad Health, there is now only one hospital system operating in the entire upper East Tennessee region, thereby reducing competition. Since all ASTCs in the market are controlled by what are now Ballad hospitals, consumers and physicians have little choice as to the ultimate provider of ambulatory surgical services. Ballad may be considering a sale of its majority interests in area ASTCs to another heath care system. But even if this were to occur, there would still be no physician-controlled ASTCs in the service area, and consumer and provider choice would still be limited.

As a physician-controlled facility, Meadowview will facilitate several enhancements to the health care delivery system in the area, and resulting benefits to patients and physicians. These include (1) value-based contracting with third party payors; (2) innovative and mutually beneficial arrangements with Medicare/CMS such as gain-sharing arrangements; (3) lower pricing structures which decrease out of pocket costs to patients; and (4) more physician control over management of the surgery center.

This proposal would not represent an unnecessary duplication of services. ASTCs in the service area are operating well above the utilization threshold in the Sate Heath Plan, measured by the number of surgical cases per licensed ambulatory surgical room. This proposal would bring additional outpatient surgical capacity, with no significant negative impact on utilization volumes of existing ASTCs.

Nor would this proposal have a negative effect on competition. The State of Tennessee's public policy to promote and protect health care competition in the area

is reflected in the Certificate of Public Advantage that was issued in approving the merger of Wellmont Health Systems and Mountain States Health Alliance. This proposal is consistent with that public policy.

C. **Consent Calendar Justification**

If Consent Calendar is requested, please provide the rationale for an expedited review.

N/A. Consent calendar consideration is not sought.

A request for Consent Calendar must be in the form of a written communication to the Agency's Executive Director at the time the application is filed.

N/A.

4. SECTION A: PROJECT DETAILS

A. ***Owner of the Facility, Agency or Institution***

Meadowview ASC, LLC Name		412-392-7231 Phone Number
2323 N. John B. Dennis Highway Street or Route		Sullivan County
Kingsport City	TN State	37660 Zip Code

B. ***Type of Ownership of Control (Check One)***

A.	Sole Proprietorship		F.	Government (State of TN or Political Subdivision)	
B.	Partnership		G.	Joint Venture	
C.	Limited Partnership		H.	Limited Liability Company	X
D.	Corporation (For Profit)		I.	Other (Specify)__________	
E.	Corporation (Not-for-Profit)				

Attach a copy of the partnership agreement, or corporate charter and certificate of corporate existence. Please provide documentation of the active status of the entity from the Tennessee Secretary of State's web-site at https://tnbear.tn.gov/ECommerce/FilingSearch.aspx. **Attachment Section A-4A.**

Copies of the organizational documents and an ownership chart are attached as Attachment Section A, 4B.

Describe the existing or proposed ownership structure of the applicant, including an ownership structure organizational chart. Explain the corporate structure and the manner in which all entities of the ownership structure relate to the applicant. As applicable, identify the

members of the ownership entity and each member's percentage of ownership, for those members with 5% ownership (direct or indirect) interest.

Meadowview ASC, LLC is a recently formed Tennessee limited liability company, which was formed for the purpose of owning the proposed surgery center. Its ownership will consist of surgeons affiliated with Holston Medical Group ("HMG") and is open to investment by additional surgeons in the community. The only initial member of the company for the purpose of legal formation is Dr. Scott R. Fowler, J.D., M.D. Additional HMG and community surgeons will invest in the ASC in the future following CON approval.

5. *Name of Management/Operating Entity (If Applicable)*

HMG Medical Management, LLC
Name

2323 N. John B. Dennis Highway — Sullivan
Street or Route — County

Kingsport — TN — 37660
City — State — Zip Code

Website address: N/A

***For new facilities or existing facilities without a current management agreement, attach a copy of a draft management agreement that at least includes the anticipated scope of management services to be provided, the anticipated term of the agreement, and the anticipated management fee payment methodology and schedule. For facilities with existing management agreements, attach a copy of the fully executed final contract.* Attachment Section A-5.**

A copy of a draft management agreement is attached as Attachment Section A, 5.

6A. ***Legal Interest in the Site of the Institution (Check One)***

A. Ownership _____
B. Option to Purchase _____
C. Lease of __10__ Years __X__
D. Option to Lease _____
E. Other (Specify) __________ _____

Check appropriate line above: For applicants or applicant's parent company/owner that currently own the building/land for the project location, attach a copy of the title/deed. For applicants or applicant's parent company/owner that currently lease the building/land for the project location, attach a copy of the fully executed lease agreement. For projects where the location of the project has not been secured, attach a fully executed document including Option to Purchase Agreement, Option to Lease Agreement, or other appropriate documentation. Option to Purchase Agreements must include anticipated purchase price. Lease/Option to Lease Agreements must include the actual/anticipated term of the agreement and actual/anticipated lease expense. The legal interests described herein must be valid **on the date of the Agency's consideration of the certificate of need application.**

A copy of the lease (sub-lease from HMG) is attached as Attachment Section A, 6A.

6B. Attach a copy of the site's plot plan, floor plan, and if applicable, public transportation route to and from the site on an 8 1/2" x 11" sheet of white paper, single or double-sided. *DO NOT SUBMIT BLUEPRINTS*. Simple line drawings should be submitted and need not be drawn to scale.

1) Plot Plan must include:

a. Size of site (*in acres*);

b. Location of structure on the site;

c. Location of the proposed construction/renovation; and

d. Names of streets, roads or highway that cross or border the site.

A plot plan is attached as Attachment Section A, 6B(1).

2) Attach a floor plan drawing for the facility which includes legible labeling of patient care rooms (noting private or semi-private), ancillary areas, equipment areas, etc. On an 8 ½ by 11 sheet of paper or as many as necessary to illustrate the floor plan.

A floor plan is attached as Attachment Section A, 6B(2).

3) Describe the relationship of the site to public transportation routes, if any, and to any highway or major road developments in the area. Describe the accessibility of the proposed site to patients/clients.

The ASTC will be in leased space in an office building which also houses one of the clinical offices of Holston Medical Group (HMG). It is conveniently located in Kingsport, and is very close to a public bus route.

7. ***Type of Institution*** ***(Check as appropriate--more than one response may apply)***

A.	Hospital (Specify)__________	_____	H	Nursing Home	_____
B.	Ambulatory Surgical Treatment Center (ASTC), Multi-Specialty	X	I.	Outpatient Diagnostic Center	_____
C.	ASTC, Single Specialty	_____	J.	Rehabilitation Facility	_____
D.	Home Health Agency	_____	K.	Residential Hospice	_____
E.	Hospice	_____	L.	Nonresidential Substitution-Based Treatment Center for Opiate Addiction	_____
F.	Mental Health Hospital	_____	M.	Other (Specify)__________	_____
G.	Intellectual Disability Institutional Habilitation Facility ICF/IID	_____			

Check appropriate lines(s).

8. **Purpose of Review** ***(Check appropriate lines(s) – more than one response may apply)***

A.	New Institution	X	F.	Change in Bed Complement [*Please note the type of change by underlining the appropriate response: Increase, Decrease, Designation, Distribution, Conversion, Relocation]*	_____
B.	Modifying an ASTC with limitation still required per CON	_____	G.	Satellite Emergency Dept.	_____
C.	Addition of MRI Unit	_____	H.	Change of Location	_____
D.	Pediatric MRI	_____	I.	Other (Specify)__________	_____
E.	Initiation of Health Care Service as defined in T.C.A. §68-11-1607(4) (Specify) Outpatient Surgery	X			

9. **Medicaid/TennCare, Medicare Participation**

MCO Contracts [Check all that apply]

___AmeriGroup _X_United Healthcare Community Plan _X_BlueCare _X_TennCare Select

Medicare Provider Number To be applied for

Medicaid Provider Number To be applied for

Certification Type ASTC

If a new facility, will certification be sought for Medicare and/or Medicaid/TennCare?

Medicare _X_Yes __No __N/A Medicaid/TennCare _X_Yes __No __N/A

10. Bed Complement Data

A. Please indicate current and proposed distribution and certification of facility beds.

N/A.

	Current Licensed	Beds Staffed	Beds Proposed	*Beds Approved	**Beds Exempted	TOTAL Beds at Completion
1) Medical						
2) Surgical						
3) ICU/CCU						
4) Obstetrical						
5) NICU						
6) Pediatric						
7) Adult Psychiatric						
8) Geriatric Psychiatric						
9) Child/Adolescent Psychiatric						
10) Rehabilitation						
11) Adult Chemical Dependency						
12) Child/Adolescent Chemical Dependency						
13) Long-Term Care Hospital						
14) Swing Beds						
15) Nursing Home – SNF (Medicare only)						
16) Nursing Home – NF (Medicaid only)						
17) Nursing Home – SNF/NF (dually certified Medicare/Medicaid)						
18) Nursing Home – Licensed (non-certified)						
19) ICF/IID						
20) Residential Hospice						
TOTAL						

**Beds approved but not yet in service* ***Beds exempted under 10% per 3 year provision*

B. Describe the reasons for change in bed allocations and describe the impact the bed change will have on the applicant facility's existing services. Attachment Section A-10.

N/A

C. Please identify all the applicant's outstanding Certificate of Need projects that have a licensed bed change component. If applicable, complete chart below.

N/A

11. Home Health Care Organizations – Home Health Agency, Hospice Agency (excluding Residential Hospice), identify the following by checking all that apply: **N/A**

	Existing Licensed County	Parent Office County	Proposed Licensed County		Existing Licensed County	Parent Office County	Proposed Licensed County
Anderson	☐	☐	☐	Lauderdale	☐	☐	☐
Bedford	☐	☐	☐	Lawrence	☐	☐	☐
Benton	☐	☐	☐	Lewis	☐	☐	☐
Bledsoe	☐	☐	☐	Lincoln	☐	☐	☐
Blount	☐	☐	☐	Loudon	☐	☐	☐
Bradley	☐	☐	☐	McMinn	☐	☐	☐
Campbell	☐	☐	☐	McNairy	☐	☐	☐
Cannon	☐	☐	☐	Macon	☐	☐	☐
Carroll	☐	☐	☐	Madison	☐	☐	☐
Carter	☐	☐	☐	Marion	☐	☐	☐
Cheatham	☐	☐	☐	Marshall	☐	☐	☐
Chester	☐	☐	☐	Maury	☐	☐	☐
Claiborne	☐	☐	☐	Meigs	☐	☐	☐
Clay	☐	☐	☐	Monroe	☐	☐	☐
Cocke	☐	☐	☐	Montgomery	☐	☐	☐
Coffee	☐	☐	☐	Moore	☐	☐	☐
Crockett	☐	☐	☐	Morgan	☐	☐	☐
Cumberland	☐	☐	☐	Obion	☐	☐	☐
Davidson	☐	☐	☐	Overton	☐	☐	☐
Decatur	☐	☐	☐	Perry	☐	☐	☐
DeKalb	☐	☐	☐	Pickett	☐	☐	☐
Dickson	☐	☐	☐	Polk	☐	☐	☐
Dyer	☐	☐	☐	Putnam	☐	☐	☐
Fayette	☐	☐	☐	Rhea	☐	☐	☐
Fentress	☐	☐	☐	Roane	☐	☐	☐
Franklin	☐	☐	☐	Robertson	☐	☐	☐
Gibson	☐	☐	☐	Rutherford	☐	☐	☐
Giles	☐	☐	☐	Scott	☐	☐	☐
Grainger	☐	☐	☐	Sequatchie	☐	☐	☐
Greene	☐	☐	☐	Sevier	☐	☐	☐
Grundy	☐	☐	☐	Shelby	☐	☐	☐
Hamblen	☐	☐	☐	Smith	☐	☐	☐
Hamilton	☐	☐	☐	Stewart	☐	☐	☐
Hancock	☐	☐	☐	Sullivan	☐	☐	☐
Hardeman	☐	☐	☐	Sumner	☐	☐	☐
Hardin	☐	☐	☐	Tipton	☐	☐	☐
Hawkins	☐	☐	☐	Trousdale	☐	☐	☐
Haywood	☐	☐	☐	Unicoi	☐	☐	☐
Henderson	☐	☐	☐	Union	☐	☐	☐
Henry	☐	☐	☐	Van Buren	☐	☐	☐
Hickman	☐	☐	☐	Warren	☐	☐	☐
Houston	☐	☐	☐	Washington	☐	☐	☐
Humphreys	☐	☐	☐	Wayne	☐	☐	☐
Jackson	☐	☐	☐	Weakley	☐	☐	☐
Jefferson	☐	☐	☐	White	☐	☐	☐
Johnson	☐	☐	☐	Williamson	☐	☐	☐
Knox	☐	☐	☐	Wilson	☐	☐	☐
Lake	☐	☐	☐				

12. Square Footage and Cost Per Square Footage Chart Note: All construction is renovation to existing leased space. It will be completed by the Lessor, according to Lessee's specifications. The costs are paid through the lease payments.

Unit/Department	Existing Location	Existing SF	Temporary Location	Proposed Final Location	Proposed Final Square Footage		
					Renovated	New	Total
Demolition	2nd. floor, suite 200	10543		2nd floor suite 210	10543		10543
Waiting					1266		1266
Reception / Front Office					1052		1052
Pre- Op					1495		1495
Operating rooms x 3					1291		1291
Sterile / OR support					2351		2351
Post- Op					1405		1405
Rest Rooms x 5					289		289
Staff lounge					487		487
Receiving / storage/ Mechanical					357		357
Nurse					296		296
Common Area					254		254
Unit/Department GSF Sub-Total					10543		
Other GSF Total							
Total GSF					10543		10543
*Total Cost	$1,605,377.00						
**Cost Per Square Foot	$152.27						
per Square Foot Is Within Which Range *(For quartile ranges, please refer to the Applicant's Toolbox on www.tn.gov/hsda)*					☒☐ Below 1st Quartile ☐ Between 1st and 2nd Quartile ☐ Between 2nd and 3rd Quartile ☐ Above 3rd Quartile	☐ Below 1st Quartile ☐ Between 1st and 2nd Quartile ☐ Between 2nd and 3rd Quartile ☐ Above 3rd Quartile	☒☐ Below 1st Quartile ☐ Between 1st and 2nd Quartile ☐ Between 2nd and 3rd Quartile ☐ Above 3rd Quartile

13. MRI, PET, and/or Linear Accelerator

N/A. No MRI or PET equipment is involved in this project.

1. **Describe the acquisition of any Magnetic Resonance Imaging (MRI) scanner that is adding a MRI scanner in counties with population less than 250,000 or initiation of pediatric MRI in counties with population greater than 250,000 and/or**
2. **Describe the acquisition of any Positron Emission Tomographer (PET) or Linear Accelerator if initiating the service by responding to the following:**

A. Complete the chart below for acquired equipment.

☐ Linear Accelerator	Mev ______ Types: ☐ SRS ☐ IMRT ☐ IGRT ☐ Other ______ Total Cost*: ______ ☐ By Purchase ☐ By Lease Expected Useful Life (yrs) ___ ☐ New ☐ Refurbished ☐ If not new, how old? (yrs) ______	
☐ MRI	Tesla: ____ Magnet: ☐ Breast ☐ Extremity ☐ Open ☐ Short Bore ☐ Other ______ Total Cost*: ______ ☐ By Purchase ☐ By Lease Expected Useful Life (yrs) ___ ☐ New ☐ Refurbished ☐ If not new, how old? (yrs) ______	
☐ PET	☐ PET only ☐ PET/CT ☐ PET/MRI Total Cost*: ______ ☐ By Purchase ☐ By Lease Expected Useful Life (yrs) ___ ☐ New ☐ Refurbished ☐ If not new, how old? (yrs) ______	

* As defined by Agency Rule 0720-9-.01(13)

B. **In the case of equipment purchase, include a quote and/or proposal from an equipment vendor. In the case of equipment lease, provide a draft lease or contract that at least includes the term of the lease and the anticipated lease payments along with the fair market value of the equipment.**

C. Compare lease cost of the equipment to its fair market value. Note: Per Agency Rule, the higher cost must be identified in the project cost chart.

D. Schedule of Operations:

Location	Days of Operation (*Sunday through Saturday*)	Hours of Operation (*example: 8 am – 3 pm*)
Fixed Site *(Applicant)*		
Mobile Locations *(Applicant)*		
(Name of Other Location)		
(Name of Other Location)		

E. **Identify the clinical applications to be provided that apply to the project.**

F. **If the equipment has been approved by the FDA within the last five years provide documentation of the same.**

SECTION B: GENERAL CRITERIA FOR CERTIFICATE OF NEED

In accordance with T.C.A. § 68-11-1609(b), "no Certificate of Need shall be granted unless the action proposed in the application for such Certificate is necessary to provide needed health care in the area to be served, can be economically accomplished and maintained, will provide health care that meets appropriate quality standards, and will contribute to the orderly development of health care." Further standards for guidance are provided in the State Health Plan developed pursuant to T.C.A. § 68-11-1625.

The following questions are listed according to the four criteria: (1) Need, (2) Economic Feasibility, (3) Applicable Quality Standards, and (4) Contribution to the Orderly Development of Health Care. Please respond to each question and provide underlying assumptions, data sources, and methodologies when appropriate. *Please type each question and its response on an 8 1/2" x 11" white paper, single-sided or double sided*. All exhibits and tables must be attached to the end of the application in correct sequence identifying the question(s) to which they refer, unless specified otherwise. *If a question does not apply to your project, indicate "Not Applicable (NA)."*

QUESTIONS

NEED

1. **Provide a response to each criterion and standard in Certificate of Need Categories in the State Health Plan that are applicable to the proposed project. Criteria and standards can be obtained from the Tennessee Health Services and Development Agency or found on the Agency's website at http://www.tn.gov/hsda/article/hsda-criteria-and-standards.**

CON STANDARDS AND CRITERIA FOR ASTCs (STATE HEALTH PLAN)

Determination of Need

1. Need. The minimum numbers of 884 Cases per Operating Room and 1867 Cases per Procedure Room are to be considered as baseline numbers for purposes of determining Need. An applicant should demonstrate the ability to perform a minimum of 884 Cases per Operating Room and/or 1867 Cases per Procedure Room per year, except that an applicant may provide information on its projected case types and its assumptions of estimated average time and clean up and preparation time per Case if this information differs significantly from the above-stated assumptions. It is recognized that an ASTC may provide a variety of services/Cases and that as a result the estimated average time and clean up and preparation time for such services/Cases may not meet the minimum numbers set forth herein. It is also recognized that an applicant applying for an ASTC Operating Room(s) may apply for a Procedure Room, although the anticipated utilization of that Procedure Room may not meet the base guidelines contained here. Specific reasoning and explanation for the inclusion in a CON application of such a Procedure Room must be provided. An applicant that desires to limit its Cases to a specific type or types should apply for a Specialty ASTC.

The proposed ASTC will have 3 fully equipped multi-use operating rooms (ORs) and no designated procedure rooms. All surgical cases will be performed in the 3 ORs. A "case" is defined in the State Health Plan as "one visit to an Operating Room or to a Procedure Room by one patient, regardless of the number of surgeries or procedures performed during that visit."

The applicant projects a total of 5,114 cases in Year 1, and 5,427 cases in Year 2. That is an average of 1,704 cases per OR in Year 1 and 1,809 cases per room in Year 2. This exceeds the utilization threshold of 70% of assumed capacity of an OR, or 884 cases per OR per year.

2. <u>Need and Economic Efficiencies.</u> An applicant must estimate the projected surgical hours to be utilized per year for two years based on the types of surgeries to be performed, including the preparation time between surgeries. Detailed support for estimates must be provided.

The applicant accepts as reasonable the assumed times for surgery and clean-up in the State Health Plan of 65 minutes per case and 30 per cases, respectively, regardless of the type of case. Based on those assumptions, the estimated surgical hours for Year 1 and Year 2 are as follows:

<u>Year 1</u>:

5,114 cases x 65 minutes per case = 332,410 surgical minutes.
5,114 cases x 30 minutes per case = 153,420 clean-up minutes.
Total = 485,830 operating room minutes = 8,097 operating room hours.

<u>Year 2</u>:

5,427 cases x 65 minutes per case = 352,755 surgical minutes.
5,427 cases x 30 minutes per case = 162,810 clean-up minutes.
Total = 515,565 operating room minutes = 8,593 operating room hours.

3. <u>Need; Economic Efficiencies; Access.</u> To determine current utilization and need, an applicant should take into account both the availability and utilization of either: a) all existing outpatient Operating Rooms and Procedure Rooms in a Service Area, including physician office based surgery rooms (when those data are officially reported and available) OR b) all existing comparable outpatient Operating Rooms and Procedure Rooms based on the type of Cases to be performed. Additionally, applications should provide similar information on the availability of nearby out-of-state existing outpatient Operating Rooms and Procedure Rooms, if that data are available, and provide the source of that data. Unstaffed dedicated outpatient Operating Rooms and unstaffed dedicated outpatient Procedure Rooms are considered available for ambulatory surgery and are to be included in the inventory and in the measure of capacity.

There are 11 ASTCs located in Sullivan County. Of these, 5 are multi-specialty surgery centers and 6 are single-specialty surgery centers. There are no ASTCs in Hawkins County.

In 2017 the average utilization of all surgical rooms in licensed ASTCs was 1,245 cases per room. The average utilization of operating rooms ("ORs") in licensed ASTCs was 772 cases per room. The average utilization of procedure rooms ("PRs") was 1,743 cases per room.

A table reflecting detailed utilization data for ASTCs in the service area for 2015-2017 is attached as <u>Attachment Section C, Need, CON Standards, 1</u>.

The proposed ASTC will have 3 multi-use operating rooms ("ORs"). That is, all 3 will be fully equipped and capable of accommodating all surgical cases appropriate to be performed in an ASTC, including those requiring general anesthesia. There will be no lower-acuity level Procedure Rooms ("PRs"). Cases such as endoscopies which could be performed in a PR will also be performed in the multi-use ORs. For this reason, the most accurate metric for determining the utilization of existing ASTCs is the total number of cases per room, including both ORs and PRs.

The 2017 average utilization of ASTCs of 1,245 cases per licensed ASTC surgical room far exceeds the State Health Plan (SHP) threshold of 884 cases per room. The average area-wide utilization has exceeded the 70% capacity benchmark for several years:

ASTC Utilization	Cases per Room	% of Need Threshold (884 cases or 70% of capacity)
2017	1,245	141%
2016	1,027	116%
2015	958	108%

The above utilization also reflects growth of 30% over the 2 year period. Clearly the service area ASTCs are well utilized and are experiencing strong growth. An additional ASTC is needed.

There are 4 hospitals in the service area which provide both inpatient and outpatient surgery. In 2016, the latest year for which JAR information is available, the average number of surgical cases per room was 670. Because not all hospitals have ORs dedicated to outpatient surgery, and those which do can change those designations at will, it is not possible to accurately segregate and gage the outpatient utilization rate of these hospitals. Moreover, because of the obvious differences between hospitals and ASTCs as facilities for outpatient surgery, an analysis of the availability of hospital based ORs for outpatient surgery is of little value or relevance.

<u>4.</u> <u>Need and Economic Efficiencies.</u> An applicant must document the potential impact that the proposed new ASTC would have upon the existing service providers and their referral patterns. A CON application to establish an ASTC or to expand existing services of an ASTC should not be approved unless the existing ambulatory surgical services that provide comparable services regarding the types of Cases performed, if those services are known and relevant, within the applicant's proposed Service Area or within the applicant's facility are demonstrated to be currently utilized at 70% or above.

The 2017 average utilization of ASTCs of 1,245 cases per licensed ASTC surgical room far exceeds the State Health Plan (SHP) 70% capacity benchmark, and that has been the case for several years:

ASTC Utilization	Cases per Room	% of Need Threshold (884 cases or 70% of capacity)
2017	1,245	141%
2016	1,027	116%
2015	958	108%

The above utilization also reflects growth of 30% over the 2 year period. Clearly the service area ASTCs are well utilized and are experiencing strong growth.

As reflected in Attachment Section C, Need, CON Standards, 1 a total of 48,560 cases were performed in the 11 licensed ASTCs in 2017. Even with no future growth this outpatient surgery volume is enough to support 60 outpatient surgical rooms at the 70% capacity threshold of 884 cases per room. There are currently only 39 ASTC-licensed surgical rooms. The addition of 3 new ORs will still leave plenty of volume for the existing ASTCs to operate at healthy utilization levels.

HMG surgeons currently perform most of their outpatient surgery cases at Holston Valley Ambulatory Surgery Center, Sapling Grove Ambulatory Surgery Center and Indian Path Medical Center. It is reasonable to assume these facilities will see some change in referral patterns from the HMG surgeons. Holston Valley Ambulatory Surgery Center experienced an average of 1,008 cases per surgical room in 2017, a level which is 114% of the utilization threshold. Sapling Grove Ambulatory Surgery Center experienced an average of 285 cases per surgical room in 2017, which is well below the utilization threshold. There are a number of reason for the low utilization at Sapling Grove, and this in part validates the need for an alternative site for outpatient surgery.

5. Need and Economic Efficiencies. An application for a Specialty ASTC should present its projections for the total number of cases based on its own calculations for the projected length of time per type of case, and shall provide any local, regional, or national data in support of its methodology. An applicant for a Specialty ASTC should provide its own definitions of the surgeries and/or procedures that will be performed and whether the Surgical Cases will be performed in an Operating Room or a Procedure Room. An applicant for a Specialty ASTC must document the potential impact that the proposed new ASTC would have upon the existing service providers and their referral patterns. A CON proposal to establish a Specialty ASTC or to expand existing services of a Specialty ASTC shall not be approved unless the existing ambulatory surgical services that provide comparable services regarding the types of Cases performed within the applicant's proposed Service Area or within the applicant's facility are demonstrated to be currently utilized at 70% or above. An applicant that is granted a CON for a Specialty ASTC shall have the specialty or limitation placed on the CON.

N/A. This proposal is not for a Specialty ASTC.

Other Standards and Criteria

6. Access to ASTCs. The majority of the population in a Service Area should reside within 60 minutes average driving time to the facility.

Kingsport is located in far western Sullivan County, close to the eastern border of Hawkins County. It is almost the mid-point of the service area which consists of Sullivan and Hawkins Counties. Most of the service area population, and at least a majority of it, is within a 60 minute drive of the site for Meadowview ASC in Kingsport.

7. Access to ASTCs. An applicant should provide information regarding the relationship of an existing or proposed ASTC site to public transportation routes if that information is available.

The site is located on Meadowview Lane, just off State Highway 23, locally named James H. Quillen Parkway. The highway runs roughly parallel to Interstate 26, and is a major thoroughfare. The public bus line runs very close to the site.

8. Access to ASTCs. An application to establish an ambulatory surgical treatment center or to expand existing services of an ambulatory surgical treatment center must project the origin of potential patients by percentage and county of residence and, if such data are readily available, by zip code, and must note where they are currently being served. Demographics of the Service Area should be included, including the anticipated provision of services to out-of-state patients, as well as the identity of other service providers both in and out of state and the source of out-of-state data. Applicants shall document all other provider alternatives available in the Service Area. All assumptions, including the specific methodology by which utilization is projected, must be clearly stated.

The patient origin by county and zip code of residence is reflected below. The projected cases by county and zip codes of patient residence closely track the zip code and county of residence for patients of HMG in 2017.

Projected Patient Origin by County – Year 1

Pt. Residential County	Projected No. of Cases	% of Total
Sullivan County TN (PSA)	3,324	65%
Hawkins County TN (PSA)	818	16%
Washington County VA	455	8.9%
Scott County VA	414	8.1%
Washington County TN	102	2.0%
Total	5,113*	100%

* Slight difference from the projection of 5,114 is due to rounding.

Projected Patient Origin by Zip Code – Year 1

Pt. Zip Code	Pt. Residential County	Projected No. of Cases	% of Total
37660	Sullivan County, TN	941	18.4%
37664	Sullivan County, TN	716	14.0%
37620	Sullivan County, TN	711	13.9%
37618	Sullivan County, TN	189	3.7%
37663	Sullivan County, TN	327	6.4%
37617	Sullivan County, TN	317	6.2%
37665	Sullivan County, TN	113	2.2%
Sub-Total Sullivan		**3,314**	**64.8%**
37642	Hawkins County, TN	424	8.3%
37857	Hawkins County, TN	205	4.0%
37645	Hawkins County, TN	169	3.3%
Sub-Total			

Hawkins		798	15.6%
Total PSA		4,112	80.4%
24201	Washington County, VA	245	4.8%
24202	Washington County, VA	210	4.1%
24251	Scott County, VA	261	5.1%
24244	Scott County, VA	164	3.2%
37615	Washington County, TN	128	2.5%
Grand Total		5,120*	100%

*The less than exact correlations between zip codes and counties, and rounding, most likely account for the slight difference between this total and the projection of 5,114 cases in Year 1.

Although two counties in Virginia account for approximately 17% of the projected patient base, neither contributes over 9% of the projected patient base, and these counties are not included in the primary service area. Therefore the availability of surgical resources in Virginia is not addressed herein.

9. Access and Economic Efficiencies. An application to establish an ambulatory surgical treatment center or to expand existing services of an ambulatory surgical treatment center must project patient utilization for each of the first eight quarters following completion of the project. All assumptions, including the specific methodology by which utilization is projected, must be clearly stated.

Projected Utilization – Year 1

Specialty:	General	Ortho	GYN	Pediatric Gastro	Podiatry	Gastro	ENT	Pulmonary	Totals
Q1	195	108	31	119	14	762	14.	7	1250
Q2	198	110	31	121	14	773	14	7	1269
Q3	201	111	32	123	14	785	14	7	1288
Q4	204	113	32	124	15	797	15	7	1307
Totals Year 1	798	442	127	487	57	3117	57	29	**5114**
Q5	207	115	33	126	15	809	15	7	1327
Q6	210	116	33	128	15	821	15	8	1347
Q7	213	118	34	130	15	833	15	8	1367
Q8	216	120	34	132	16	846	16	8	1387
Totals Year 2	847	469	135	517	61	3309	61	30	**5427**

In order to project the number of cases in Year 1, the applicant reviewed the number of cases performed by surgeons and proceduralists employed by Holston Medical Group, P.C., who are expected to perform their procedures at the ASC. Specifically, the applicant calculated these surgeries and procedures for the first quarter of 2018 and then annualized them with a small growth factor of 1.5% each quarter.

These projections are based entirely on the cases of the HMG affiliated surgeons, and do not take into account cases that will be performed in the ASTC by non-HMG affiliated surgeons.

10. Patient Safety and Quality of Care; Health Care Workforce.

a. An applicant should be or agree to become accredited by any accrediting organization approved by the Centers for Medicare and Medicaid Services, such as the Joint Commission, the Accreditation Association of Ambulatory Health Care, the American Association for Accreditation of Ambulatory Surgical Facilities, or other nationally recognized accrediting organization.

Meadowview will apply for and expects to receive accreditation through the Accreditation Association for Ambulatory Health Care (AAAHC).

b. An applicant should estimate the number of physicians by specialty that are expected to utilize the facility and the criteria to be used by the facility in extending surgical and anesthesia privileges to medical personnel. An applicant should provide documentation on the availability of appropriate and qualified staff that will provide ancillary support services, whether on- or off-site.

Currently, 18 surgeons affiliated with HMG have signed a Letter of Interest to acquire ownership interests in the ASTC. A copy of the Letter of Interest is attached as Attachment Section C, Need, CON Standards, 2. Ownership opportunities will also be available to non-HMG surgeons in the community who are qualified investors, but the number and specialty of any such surgeons is unknown at this time. The HMG affiliated investing surgeons and their specialties are as follows:

Surgeon	Specialty
Seluk, Crystal	Otolaryngology
Bailey, Lawrence	Gastroenterology
Shone, Dallas	Gastroenterology
Holt, Steven	General Surgery
Hunt, Jeff	General Surgery
Stanski, Cheryl	General Surgery
Thomas, Thomas	General Surgery
Krzyminski, Rebecca	OB/GYN
Mitchell, Christopher	OB/GYN
Schalau, Daphne	OB/GYN
Stevens, Christy	OB/GYN
Krein, Steven	Orthopedic
Park, Jason	Orthopedic
Remy, Lindsay	Orthopedic
Youssef, Ashraf	Orthopedic
Lawrence, Chad	Orthopedic - Podiatry
Francisco, Mary	Pediatric
Bass, Leon	Pulmonary

Credentialing at the ASC will follow traditional credentialing protocols as established by the ASC and the Medical Director. These criteria will include:

Education and work history
Copy of Current Medical License(s)
Listing of Affiliations with other health care institutions (hospitals, ASCs, etc.)
DEA credentials and certificate
BLA, ACLS, and/or PALS Certificates
Listing of Specialty Board Certifications and continuing education
Evidence of Malpractice Insurance and history of any malpractice actions
Request for Professional References / Peer Recommendations
Current Curriculum Vitae
Current TB skin test results, verification of influenza vaccination and Hepatitis B Series vaccination

11. Access to ASTCs. In light of Rule 0720-11.01, which lists the factors concerning need on which an application may be evaluated, and Principle No. 2 in the State Health Plan, "Every citizen should have reasonable access to health care," the HSDA may decide to give special consideration to an applicant:

a. Who is offering the service in a medically underserved area as designated by the United States Health Resources and Services Administration;

According to the Health Resources and Services Administration website, Sullivan County is a Medically Underserved Population, with a population type "MUP Low Income."

https://datawarehouse.hrsa.gov/tools/analyzers/MuaSearchResults.aspx

b. Who is a "safety net hospital" or a "children's hospital" as defined by the Bureau of TennCare Essential Access Hospital payment program;

N/A.

c. Who provides a written commitment of intention to contract with at least one TennCare MCO and, if providing adult services, to participate in the Medicare program; or

The applicant verifies its intention to contract with at least one TennCare MCO, and to participate in the Medicare program.

d. Who is proposing to use the ASTC for patients that typically require longer preparation and scanning times. The applicant shall provide in its application information supporting the additional time required per Case and the impact on the need standard.

N/A.

[END OF RESPONSES TO SHP STANDARDS AND CRITERIA]

2. **Describe the relationship of this project to the applicant facility's long-range development plans, if any, and how it relates to related previously approved projects of the applicant.**

The applicant has no long-term plans relating the provision of outpatient surgery beyond this proposal at this time. The applicant has not previously been approved for a CON.

3. **Identify the proposed service area and justify the reasonableness of that proposed area. Submit a county level map for the Tennessee portion of the service area using the map on the following page, clearly marked to reflect the service area as it relates to meeting the requirements for CON criteria and standards that may apply to the project. Please include a discussion of the inclusion of counties in the border states, if applicable. Attachment Section B - Need-3.**

The proposed primary service area is Sullivan County and Hawkins County. Approximately 81% of the patients of Holston Medical Group were residents of these counties in 2017. Since most of the surgeon owners will be affiliated with HMG, and since the utilization projections in this application are basely solely on the HMG-affiliated surgeons, it is reasonable to assume the patient origin of the proposed ASTC will be roughly the same as that of HMG.

A map of the proposed service area is attached as Attachment Section B, Need, 3.

Although two counties in Virginia account for approximately 17% of the projected patient base, neither contributes more than 9% of the projected patient base and these counties are not included in the primary service area. Therefore the availability of surgical resources in Virginia is not addressed herein.

Please complete the following tables, if applicable:

Service Area Counties	Historical No. of Patients	County % of total cases
Sullivan County TN (PSA)	40,713	65%
Hawkins County TN (PSA)	9,738	16%
Washington County VA	5,576	8.9%
Scott County VA	5,268	8.4%
Washington County TN	1,542	2.0%
Total	62,837	100%

Service Area Counties	Projected No. of Cases	County % of total cases
Sullivan County TN (PSA)	3,324	65%
Hawkins County TN (PSA)	818	16%
Washington County VA	455	8.9%
Scott County VA	414	8.1%
Washington County TN	102	2.0%
Total	5,113*	100%

* Slight difference from the projection of 5,114 is due to rounding.

4. **A. 1) Describe the demographics of the population to be served by the proposal.**

2) Using current and projected population data from the Department of Health, the most recent enrollee data from the Bureau of TennCare, and demographic information from the US Census Bureau, complete the following table and include data for each county in your proposed service area.

Projected Population Data: http://www.tn.gov/health/article/statistics-population

TennCare Enrollment Data: http://www.tn.gov/tenncare/topic/enrollment-data

Census Bureau Fact Finder: http://factfinder.census.gov/faces/nav/jsf/pages/index.xhtml

** Target Population is population that project will primarily serve. For example, nursing home, home health agency, hospice agency projects typically primarily serve the Age 65+ population; projects for child and adolescent psychiatric services will serve the Population Ages 0-19. Projected Year is defined in select service-specific criteria and standards. If Projected Year is not defined, default should be four years from current year, e.g., if Current Year is 2016, then default Projected Year is 2020.*

A table reflecting the requested information is attached as Attachment Section C, Need, 4, A. The Projected Year is based on a four year planning horizon, 2022. The target population is ages 18+. Although the ASTC will serve all ages of patients the majority will be adults, so ages 18+ is used as the target population for the sake of demographic comparisons.

B. Describe the special needs of the service area population, including health disparities, the accessibility to consumers, particularly the elderly, women, racial and ethnic minorities, and low-income groups. Document how the business plans of the facility will take into consideration the special needs of the service area population.

As compared to the state as a whole the PSA: (1) has lower projected population growth; (2) a higher median age; (3) lower household income; (4) a higher percentage of persons below poverty level; and (5) a higher percentage of TennCare enrollees.

As reflected in the Certificate of Public Advantage (COPA) granted to Ballad Health by the Tennessee Department of Health, the area as identified in the COPA (which area is larger than the PSA) experiences significant health disparities on a national and statewide basis.

Meadowview ASC will be accessible to all consumers regardless of socio-economic status. Meadowview will participate in Medicare, TennCare and numerous commercial health plans. While it may not be in-network with every single health plan, it will participate in as many as is economically feasible.

There is a special need in the service area for a physician controlled ASTC. Every ASTC in the service area has controlling ownership interests held by a hospital, or, where it does not have a controlling interest, the hospital has reserved powers giving it *de facto* control over insurance contracting and other important matters. While physician and hospital jointly-owned ASTCs are a very common and attractive model, there is a need for a physician controlled ASTC in the service area.

Since the merger of Wellmont Health Systems and Mountain States Health Alliance into Ballad Health, there is now only one hospital system operating in the entire upper East Tennessee region, thereby reducing competition. Since all ASTCs in the market are controlled by what are now Ballad hospitals, consumers and physicians have little choice as to the ultimate provider of ambulatory surgical services. Ballad may be considering a sale of its majority interests in area ASTCs to another heath care system. But even if this were to occur, there would still be no physician-controlled ASTCs in the service area, and consumer and provider choice would still be limited.

As a physician-controlled facility, Meadowview will facilitate several enhancements to the health care delivery system in the area, and resulting benefits to patients and physicians. These include (1) value-based contracting with third party payors; (2) innovative and mutually beneficial arrangements with Medicare/CMS such as gain-sharing arrangements; (3) lower pricing structures which decrease out of pocket costs to patients; and (4) more physician control over management of the surgery center.

5. **Describe the existing and approved but unimplemented services of similar healthcare providers in the service area. Include utilization and/or occupancy trends for each of the most recent three years of data available for this type of project. List each provider and its utilization and/or occupancy individually. Inpatient bed projects must include the following data: Admissions or discharges, patient days, average length of stay, and occupancy. Other projects should use the most appropriate measures, e.g., cases, procedures, visits, admissions, etc. This doesn't apply to projects that are solely relocating a service.**

There are 11 ASTCs located in Sullivan County. Of these, 5 are multi-specialty surgery centers and 6 are single-specialty surgery centers. There are no ASTCs in Hawkins County.

In 2017 the average utilization of all surgical rooms in licensed ASTCs was 1,245 cases per room. The average utilization of operating rooms ("ORs") in licensed ASTCs was 772 cases per room. The average utilization of procedure rooms ("PRs") was 1,743 cases per room.

There are 4 hospitals in the service area which provide both inpatient and outpatient surgery. In 2016, the latest year for which JAR information is available, the average number of surgical cases per room was 670. Because not all hospitals have ORS dedicated to outpatient surgery, and those which do can change those designations at will, it is not possible to accurately segregate and gage the outpatient utilization rate of these hospitals. Moreover, because of the obvious differences between hospitals and ASTCs as facilities for outpatient surgery, an analysis of the availability of hospital based ORs for outpatient surgery is of little value.

A table reflecting detailed utilization data for ASTCs in the service area for 2015-2017 is attached as Attachment Section C, CON Standards, 1.

6. **Provide applicable utilization and/or occupancy statistics for your institution for each of the past three years and the projected annual utilization for each of the two years following completion of the project. Additionally, provide the details regarding the methodology used to project utilization. The methodology must include detailed calculations or documentation from referral sources, and identification of all assumptions.**

This is a proposed new facility, so there is no historical utilization data. The projected utilization for the first two years of operations is reflected below:

Projected Utilization – Year 1

Specialty:	General	Ortho	GYN	Pediatric Gastro	Podiatry	Gastro	ENT	Pulmonary	Totals
Q1	195	108	31	119	14	762	14	7	1250
Q2	198	110	31	121	14	773	14	7	1269
Q3	201	111	32	123	14	785	14	7	1288
Q4	204	113	32	124	15	797	15	7	1307
Totals Year 1	798	442	127	487	57	3117	57	29	**5114**
Q5	207	115	33	126	15	809	15	7	1327
Q6	210	116	33	128	15	821	15	8	1347
Q7	213	118	34	130	15	833	15	8	1367
Q8	216	120	34	132	16	846	16	8	1387
Totals Year 2	847	469	135	517	61	3309	61	30	**5427**

In order to project the number of cases in Year 1, the applicant reviewed the number of cases performed by surgeons and proceduralists employed by Holston Medical Group, P.C., who are expected to perform their procedures at the ASC. Specifically, the applicant calculated these surgeries and procedures for the first quarter of 2018 and then annualized them with a small growth factor of 1.5% each quarter.

ECONOMIC FEASIBILITY

1. **Provide the cost of the project by completing the Project Costs Chart on the following page. Justify the cost of the project.**

The total estimated project cost (not including the HSDA filing fee) is $9,773,127. The largest single expenditure is the imputed cost of the leasehold interest over the 10 year initial term, at a total lease cost of $4,844,049. The lease includes all construction/renovation costs amortized over the life of the lease. The next largest single component is fixed and movable equipment (purchased and leased) in the amount of $3,499,927. Each of the project cost components were or will be negotiated in arm's length transactions and are commercially reasonable.

A completed Project Costs Chart is attached following this page.

A. **All projects should have a project cost of at least $15,000 (the minimum CON Filing Fee). (See Application Instructions for Filing Fee)**

B. **The cost of any lease (building, land, and/or equipment) should be based on fair market value or the total amount of the lease payments over the initial term of the lease, whichever is greater. Note: This applies to all equipment leases including by procedure or "per click" arrangements. The methodology used to determine the total lease cost for a "per click" arrangement must include, at a minimum, the projected procedures, the "per click" rate and the term of the lease.**

The lease terms for the building space are commercially reasonable in amount and scope, and represents what the parties believe to be fair market value, which will be verified by and independent third party valuation. The total of the lease payments over the initial term of the lease are entered on line B, 1 of the Project Costs Chart. The lease includes all construction/renovation costs amortized over the life of the lease

C. **The cost for fixed and moveable equipment includes, but is not necessarily limited to, maintenance agreements covering the expected useful life of the equipment; federal, state, and local taxes and other government assessments; and installation charges, excluding capital expenditures for physical plant renovation or in-wall shielding, which should be included under construction costs or incorporated in a facility lease.**

The more costly medical equipment (those pieces over approximately $50,000) are expected to be leased, while the less costly pieces will be purchased. Because the leased equipment is in the relatively lower cost range (as compared to major equipment such as an MRI unit), it is not practical to have lease quotes at this stage of the project. The equipment cost estimates are based on the best judgment of individuals experienced in the medical equipment market place. The estimated costs of the equipment are included in the appropriate lines on the Project Cost Chart.

D. **Complete the Square Footage Chart on page 8 and provide the documentation. Please note the Total Construction Cost reported on line 5 of the Project Cost Chart should equal the Total Construction Cost reported on the Square Footage Chart.**

A completed Square Footage Chart is attached following this page. No new construction is involved; the renovation is tenant improvements to the leased space.

E. **For projects that include new construction, modification, and/or renovation—documentation must be provided from a licensed architect or construction professional that support the estimated construction costs. Provide a letter that includes the following:**

1) **A general description of the project;**

2) **An estimate of the cost to construct the project;**

3) **A description of the status of the site's suitability for the proposed project; and**

4) **Attesting the physical environment will conform to applicable federal standards, manufacturer's specifications and licensing agencies' requirements including the AIA Guidelines for Design and Construction of Hospital and Health Care Facilities in current use by the licensing authority.**

   A letter from the project general contractor is attached as Attachment Section C, Economic Feasibility, 1. No new construction is involved; the renovation is tenant improvements to the leased space.

PROJECT COST CHART

JUL 13 '18 AM 10:49

A.	Construction and equipment acquired by purchase:		
	1. Architectural and Engineering Fees		$ 69,150.00
	2. Legal, Administrative, Consultant Fees		$ 60,000.00
	3. Acquisition of Site		$ -
	4. Preparation of Site		$ -
	5. Total Construction Costs		
	6. Contingency Fund		
	7. Fixed Equipment (Not included in Construction Contract)	OR lights	$ 99,927.00
	8. Moveable Equipment (List all equipment over $50,000.00)		$ 1,796,868.54
	9. Other (Specify)	Start up Supplies	$ 1,000,000.00
B.	Acquisition by gift donation, or lease:		
	1. Facility (Inclusive of building and land)		$ 4,844,049.39
	2. Building Only		
	3. Land Only		
	4. Equipment (Specify)	Equipment over $50k (see attached)	$ 1,603,131.46
	5. Other (Specify)		
C.	Financing Costs and Fees:		
	1. Interim Financing		$ 300,000.00
	2. Underwriting Costs		
	3. Reserve for One Year's Debt Service		
	4. Other (Specify)		
D.	Estimated Project Cost (A+B+C)		$ 9,773,126.39
E.	CON Filing Fee		$ 56,195.48
F.	Total Estimated Project Cost (D + E)	TOTAL	$ 9,829,321.87

Meadowview Surgery Center Equipment Listing - OVER 50k

Equipment Name/Description	Quote Amount	Qty. Needed	Extended Cost
Arthroscopy Set Up/Stryker Equipment	$ 155,532.04	1	$ 155,532.04
C Arm OEC 9800	$ 70,000.00	1	$ 70,000.00
Arthroscopy Set Up/Arthrex Equipment	$ 76,031.15	1	$ 76,031.15
ARTHROSOPE SYSTEM (Arthrex Tower)- Arthrex Synergy HD3	$ 202,142.20	2	$ 404,284.39
STERRAD 100S - ADVANCED STERILIZATION PRODUCTS (ASP) STERRAD 100S MODEL	$ 132,335.52	1	$ 132,335.52
PLATFORM PREVAC STERLIZER, ATLANS LOADIN - STERIS AMSCO V-120 PREVAC STEAM STERILIZER	$ 122,133.16	2	$ 244,266.31
LECIA OHS M520 MICROSCOPE SYSTEM	$ 103,618.00	1	$ 103,618.00
MANIFOLD RACK, RELIANCE SYNERGY WASHER/DISINFECTOR	$ 76,238.23	3	$ 228,714.69
MINDRAY A3 ANESTHESIA MACHINE	$ 62,783.11	3	$ 188,349.34
			$ 1,603,131.46

2. **Identify the funding sources for this project.**

   Check the applicable item(s) below and briefly summarize how the project will be financed. ***(Documentation for the type of funding MUST be inserted at the end of the application, in the correct alpha/numeric order and identified as Attachment Section B-Economic Feasibility-2.)***

   __ **A. Commercial loan – Letter from lending institution or guarantor stating favorable initial contact, proposed loan amount, expected interest rates, anticipated term of the loan, and any restrictions or conditions;**

   __ **B. Tax-exempt bonds – Copy of preliminary resolution or a letter from the issuing authority stating favorable initial contact and a conditional agreement from an underwriter or investment banker to proceed with the issuance;**

   __ **C. General obligation bonds – Copy of resolution from issuing authority or minutes from the appropriate meeting;**

   __ **D. Grants – Notification of intent form for grant application or notice of grant award;**

   __ **E. Cash Reserves – Appropriate documentation from Chief Financial Officer of the organization providing the funding for the project and audited financial statements of the organization; and/or**

   _X_ **F. Other – Identify and document funding from all other sources.**

   Most of the project cost is related to the imputed cost of the lease, which cost will be paid through operating revenues. Likewise, a good portion of the equipment will be leased and paid through operating revenues.

   Out of pocket costs such as purchased equipment will be funded through a working capital loan from HMG. A letter from the appropriate officer of HMG is attached as Attachment Section C, Economic Feasibility, 2. In addition, there will be substantial capital infusion through the investments by surgeons.

3. **Complete Historical Data Charts on the following two pages—*Do not modify the Charts provided or submit Chart substitutions!***

   Historical Data Chart represents revenue and expense information for the last *three (3)* years for which complete data is available. Provide a Chart for the total facility and Chart just for the services being presented in the proposed project, if applicable. Only complete one chart if it suffices.

   Note that "Management Fees to Affiliates" should include management fees paid by agreement to the parent company, another subsidiary of the parent company, or a third party with common ownership as the applicant entity. "Management Fees to Non-Affiliates" should include any management fees paid by agreement to third party entities not having common ownership with the applicant.

   N/A. The applicant is a newly formed entity and the ASTC is a proposed new facility, so there no historical data.

N/A.

☐Total Facility
☐ Project Only

HISTORICAL DATA CHART

Give information for the last *three (3)* years for which complete data are available for the facility or agency. The fiscal year begins in __________ (Month).

		Year_____	Year_____	Year_____
A.	Utilization Data (Specify unit of measure, e.g., 1,000 patient days, 500 visits)	________	________	________
B.	Revenue from Services to Patients			
	1. Inpatient Services	$________	$________	$________
	2. Outpatient Services	________	________	________
	3. Emergency Services	________	________	________
	4. Other Operating Revenue (Specify)__________________	________	________	________
	Gross Operating Revenue	**$________**	**$________**	**$________**
C.	Deductions from Gross Operating Revenue			
	1. Contractual Adjustments	$________	$________	$________
	2. Provision for Charity Care	________	________	________
	3. Provisions for Bad Debt	________	________	________
	Total Deductions	**$________**	**$________**	**$________**
NET OPERATING REVENUE		**$________**	**$________**	**$________**
D.	Operating Expenses			
	1. Salaries and Wages			
	a. Direct Patient Care	________	________	________
	b. Non-Patient Care	________	________	________
	2. Physician's Salaries and Wages	________	________	________
	3. Supplies	________	________	________
	4. Rent			
	a. Paid to Affiliates	________	________	________
	b. Paid to Non-Affiliates	________	________	________
	5. Management Fees:			
	a. Paid to Affiliates	________	________	________
	b. Paid to Non-Affiliates	________	________	________
	6. Other Operating Expenses	________	________	________
	Total Operating Expenses	**$________**	**$________**	**$________**
E.	**Earnings Before Interest, Taxes and Depreciation**	**$________**	**$________**	**$________**
F.	Non-Operating Expenses			
	1. Taxes	$________	$________	$________
	2. Depreciation	________	________	________
	3. Interest	________	________	________
	4. Other Non-Operating Expenses	________	________	________
	Total Non-Operating Expenses	**$________**	**$________**	**$________**
NET INCOME (LOSS)		**$________**	**$________**	**$________**

Chart Continues Onto Next Page

NET INCOME (LOSS)	$_______	$_______	$_______
G. Other Deductions			
1. Annual Principal Debt Repayment	$_______	$_______	$_______
2. Annual Capital Expenditure	_______	_______	_______
Total Other Deductions	$_______	$_______	$_______
NET BALANCE	$_______	$_______	$_______
DEPRECIATION	$_______	$_______	$_______
FREE CASH FLOW (Net Balance + Depreciation)	$_______	$_______	$_______

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☐ **Total Facility**

☐ **Project Only**

HISTORICAL DATA CHART-OTHER EXPENSES

OTHER EXPENSES CATEGORIES	Year____	Year___	Year_____
1. Professional Services Contract	$________	$_______	$________
2. Contract Labor	________	_______	________
3. Imaging Interpretation Fees	________	_______	________
4. ____________________________	________	_______	________
5. ____________________________	________	_______	________
6. ____________________________	________	_______	________
7. ____________________________	________	_______	________
Total Other Expenses	$________	$_______	$________

4. **Complete Projected Data Charts on the following two pages – *Do not modify the Charts provided or submit Chart substitutions!***

The Projected Data Chart requests information for the two years following the completion of the proposed services that apply to the project. Please complete two Projected Data Charts. One Projected Data Chart should reflect revenue and expense projections for the *Proposal Only* (*i.e.*, if the application is for additional beds, include anticipated revenue from the proposed beds only, not from all beds in the facility). The second Chart should reflect information for the total facility. Only complete one chart if it suffices.

Note that "Management Fees to Affiliates" should include management fees paid by agreement to the parent company, another subsidiary of the parent company, or a third party with common ownership as the applicant entity. "Management Fees to Non-Affiliates" should include any management fees paid by agreement to third party entities not having common ownership with the applicant.

A completed Projected Data Chart is attached following this page.

PROJECTED DATA CHART

_X_ Total Facility
_X_ Project Only

Give information for the last two (2) years for which complete data are available for the facility or agency. The fiscal year begins in ____January__________ (Month)

		Year: 2020	Year: 2021
A.	Utilization/Occupancy Data (Specify unit of measure, e.g., 1,000 patient days, 500 visits)	5114 cases	5427 cases
B.	Revenue from Services to Patients		
	1. Inpatient Services		
	2. Outpatient Services	$12,128,423.00	$12,872,666.00
	3. Emergency Services		
	4. Other Operating Revenue Specify: ____________		
	Gross Operating Revenue	$12,128,423.00	$12,872,666.00
C.	Deductions from Operating Revenue		
	1. Contract Deductions	$6,519,983.00	$6,920,072.00
	2. Provision for Charity Care	$121,284.23	$128,726.66
	3. Provision for Bad Debt	$215,709.24	$228,945.92
	Total Deductions	$6,856,976.47	$7,277,744.58
NET OPERATING REVENUE		$5,271,446.53	$5,594,921.42
D.	Operating Expenses		
	1. Salaries and Wages		
	a. Direct Patient Care	$830,681.00	$882,291.00
	b. Non-Patient Care	$304,948.00	$323,024.00
	2. Physicians' Salaries and Wages	$0.00	$0.00
	3. Supplies	$1,567,743.00	$1,657,090.00
	4. Rent		
	a. Paid to Affiliates	$0.00	$0.00
	b. Paid to Non-Affiliates	$446,155.00	$457,308.00
	5. Management Fees:		
	a. Fees to Affiliates	$263,645.00	$263,645.00
	b. Fees to Non-Alffiliates	$0.00	$0.00
	6. Other Operating Expenses	$461,237.00	$463,172.00
	Total Operating Expenses	$3,874,409.00	$4,046,530.00
E.	**Earnings Before Interest, Taxes, and Depreciation**	$1,397,037.53	$1,548,391.42
F.	Non-Operating Expenses		
	1. Taxes	$77,040.00	$77,040.00
	2. Depreciation	$233,332.00	$233,332.00
	3. Interest	$32,000.00	$32,000.00
	4. Other Non-Operating Expenses	$0.00	$0.00
	Total Non-Operating Expenses	$342,372.00	$342,372.00
NET INCOME (LOSS)		$1,054,665.53	$1,206,019.42
G.	Other Deductions		
	1. Estimated Annual Principal Debt Repayment		
	2. Annual Capital Expediture		
	Other Total Deductions	$0.00	$0.00
	NET BALANCE	$1,054,665.53	$1,206,019.42
	DEPRECIATION	$233,332.00	$233,332.00
	FREE CASH FLOW (Net Blance + Depreciation)	$1,287,997.53	$1,439,351.42

PROJECTED DATA CHART -- OTHER EXPENSES

X Total Facility
X Project Only

OTHER EXPENSE CATEGORY	Yea Year 2020	Year 2021
1. Professional Services Contracts	$ 262,877.00	$ 263,885.00
2. Contract Labor	$ -	$ -
3. Imagng Interpretation Fees	$ 15,107.00	$ 16,034.00
Employee Recog & Events	$ 2,182.00	$ 2,182.00
Travel	$ 2,151.00	$ 2,151.00
Cell Phone	$ 532.00	$ 532.00
Continuing Education	$ 2,281.00	$ 2,281.00
Dues & licenses	$ 10,937.00	$ 10,937.00
Bank Charges/Credit Card Fees	$ 15,278.00	$ 15,278.00
Insurance	$ 19,188.00	$ 19,188.00
Maint & Rep-Bldg & Land	$ 3,421.00	$ 3,421.00
Rent/Lease-FF&E	$ 3,361.00	$ 3,361.00
Maint & Rep-FF&E	$ 96,313.00	$ 96,313.00
Medical Director Fees	$ 17,280.00	$ 17,280.00
Marketing	$ 5,790.00	$ 5,790.00
Postage & Shipping	$ 3,615.00	$ 3,615.00
Books & Subscriptions	$ 924.00	$ 924.00
TOTAL OTHER EXPENSES	$ 461,237.00	$ 463,172.00

5. **A. Please identify the project's average gross charge, average deduction from operating revenue, and average net charge using information from the Projected Data Chart for Year 1 and Year 2 of the proposed project. Please complete the following table.**

	Previous Year	Current Year	Year One	Year Two	% Change (Year 1 to Year 2)
Gross Charge *(Gross Operating Revenue/Utilization Data)*	N/A	N/A	$2,371.61	$2,371.97	<1%
Deduction from Revenue *(Total Deductions/Utilization Data)*	N/A	N/A	$1,340.82	$1,341.03	<1%
Average Net Charge *(Net Operating Revenue/Utilization Data)*	N/A	N/A	$1,030.79	$1,030.94	<1%

B. Provide the proposed charges for the project and discuss any adjustment to current charges that will result from the implementation of the proposal. Additionally, describe the anticipated revenue from the project and the impact on existing patient charges.

The charge master for the proposed ASTC consists of 1,660 rows of CPT codes, the facility charges, and the Medicare reimbursements rates for each. It is not practical or particularly helpful to attach a copy of the voluminous charge master, in light of the inclusion of the average charge information reflected above.

The initial surgeons and proceduralists who have evidenced their intent to invest in Meadowview ASC, have entered a number of value-based arrangements with managed care organizations. Under these arrangements, physicians and surgeons aim to meet high quality standards while at the same time reducing overall costs. It is the intent and goal of Meadowview ASC to bring more of these value-based arrangements to the ambulatory surgery market. This is a proposed new facility so there are no current charges, but the applicant believes it will be able to facilitate lower charges for outpatient surgery in the area.

C. Compare the proposed charges to those of similar facilities in the service area/adjoining service areas, or to proposed charges of projects recently approved by the Health Services and Development Agency. If applicable, compare the proposed charges of the project to the current Medicare allowable fee schedule by common procedure terminology (CPT) code(s).

The proposed average gross charge, average deduction and average net charge are reflected above. These are commercially reasonable and are lower than the 2017 average net charges of all except one of the existing multi-specialty ASTCs in the area, and significantly lower than the average net charge for all service area ASTCs as a whole. The 2017 average net charges of the existing ASTCs in the service area are reflected below.

AVERAGE NET CHARGES - MUTISPECIALTY ASTCs - 2017			
Facility	**Total Net Revenue**	**Total Cases**	**Net Charge per Case**
Bristol Surgery Center	$9,826,923	2403	$4,089
Kingsport ASC	$4,826,094	2848	$1,695
Sapling Grove ASC	$3,200,144	1652	$1,937
Holston Valley Surgery Ctr.	$9,463,423	7058	$1,341
Renaissance Surgery Ctr.	$774,249	1350	$574
Total/Avg.	$28,090,833	15311	**$1,835**

Source: 2017 Joint Annual Reports

6. **A. Discuss how projected utilization rates will be sufficient to support the financial performance. Indicate when the project's financial breakeven is expected and demonstrate the availability of sufficient cash flow until financial viability is achieved. Provide copies of the balance sheet and income statement from the most recent reporting period of the institution and the most recent audited financial statements with accompanying notes, if applicable. For all projects, provide financial information for the corporation, partnership, or principal parties that will be a source of funding for the project. Copies must be inserted at the end of the application, in the correct alpha-numeric order and labeled as Attachment Section B-Economic Feasibility-6A. NOTE: Publicly held entities only need to reference their SEC filings.**

AS reflected in the Projected Data Chart, Meadowview ASC will be profitable in the first year of operations and thereafter.

Audited financial statements of HMG are attached as Attachment Section C, Economic Feasibility, 6.

B. Net Operating Margin Ratio – Demonstrates how much revenue is left over after all the variable or operating costs have been paid. The formula for this ratio is: (Earnings before interest, Taxes, and Depreciation/Net Operating Revenue).

Utilizing information from the Historical and Projected Data Charts please report the net operating margin ratio trends in the following table:

Year	2nd Year previous to Current Year	1st Year previous to Current Year	Current Year	Projected Year 1	Projected Year 2
Net Operating Margin Ratio	N/A	N/A	N/A	0.244	0.257

C. **Capitalization Ratio (Long-term debt to capitalization) – Measures the proportion of debt financing in a business's permanent (Long-term) financing mix. This ratio best measures a business's true capital structure because it is not affected by short-term financing decisions. The formula for this ratio is: Long Term Debt/(Long Term Debt + Total Equity) x 100.**

   For the entity (applicant and/or parent company) that is funding the proposed project please provide the capitalization ratio using the most recent year available from the funding entity's audited balance sheet, if applicable. The Capitalization Ratios are not expected from outside the company lenders that provide funding.

   N/A. The applicant is a new entity and has no long term debt.

7. **Discuss the project's participation in state and federal revenue programs including a description of the extent to which Medicare, TennCare/Medicaid and medically indigent patients will be served by the project. Additionally, report the estimated gross operating revenue dollar amount and percentage of projected gross operating revenue anticipated by payor classification for the first year of the project by completing the table below.**

Meadowview ASC will participate in the Medicare and TennCare programs to help insure access to the elderly and to lower income individuals. The projected payor mix and anticipated revenues by payor are reflected below.

Applicant's Projected Payor Mix, Year 1

Payor Source	Projected Gross Operating Revenue	Revenue as a % of total
Medicare/Medicare Managed Care	$2,315,762	19.09%
TennCare/Medicaid	$903,787	7.45%
Commercial/Other Managed Care	$382,277	69.11%
Self-Pay	$11,953	0.10%
Other(Specify): Government/Veterans	$514,643	4.25%
Total	$12,128,422*	100%

* The slight discrepancy from the PDC is due to rounding.

8. **Provide the projected staffing for the project in Year 1 and compare to the current staffing for the most recent 12-month period, as appropriate. This can be reported using full-time equivalent (FTEs) positions for these positions. Additionally, please identify projected salary amounts by position classifications and compare the clinical staff salaries to prevailing wage patterns in the proposed service area as published by the Department of Labor & Workforce Development and/or other documented sources.**

Position Classification	Existing FTEs (2017)	Projected FTEs Year 1	Average Wage (Contractual Rate)	Area Wide/Statewide Average Wage
A. Direct Patient Care Positions				
Circulating Charge Nurse	0	1.0	$30.42	$28.41
Circulating Nurse	0	0.9	$23.92	$28.41

PACU Nurse	0	3.9	$29.11	$28.41
Pre-Op Nurse	0	3.0	$26.29	$28.41
Surgical Tech III	0	4.0	$24.96	$20.04
Endoscopy Tech	0	1.0	$20.80	$17.60
Total Direct Patient Care Positions	0	13.8	$30.30	$22.01

B. Non-Patient Care Positions				
Director	0	1.0	$49.92	$42.29
Office Manager	0	1.0	$19.03	$17.68
Reimbursement Coordinator	0	1.0	$15.41	$15.41
Purchasing Manager	0	1.0	$20.80	$24.32
Central Sterile Tech	0	0.9	$14.56	$14.53
Total Non-Patient Care Positions	0	4.9	$23.94	$22.85
Total Employees *(A+B)*	0	18.7	$27.12	$22.43
C. Contractual Staff	0	4.0	N/A	N/A
Total Staff *(A+B+C)*	0	22.7	$27.12	$22.43

9. **Describe all alternatives to this project which were considered and discuss the advantages and disadvantages of each alternative including but not limited to:**

   A. **Discuss the availability of less costly, more effective and/or more efficient alternative methods of providing the benefits intended by the proposal. If development of such alternatives is not practicable, justify why not, including reasons as to why they were rejected.**

   For the reasons discussed in more detail elsewhere in this application, this proposed physician-controlled ASTC is a cost effective means of bringing additional needed surgical capacity to the area, while facilitating innovative and consumer-friendly cost structures and care delivery. No less costly and equally effective alternatives were identified.

   B. **Document that consideration has been given to alternatives to new construction, e.g., modernization or sharing arrangements.**

   N/A. No ground-up new construction is involved in this project.

CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTH CARE

1. **List all existing health care providers (i.e., hospitals, nursing homes, home care organizations, etc.), managed care organizations, alliances, and/or networks with which the applicant currently has or plans to have contractual and/or working relationships, that may directly or indirectly apply to the project, such as, transfer agreements, contractual agreements for health services.**

   It is expected that the ASC will have contractual relationships with the categories of providers listed below. It is premature to have specific vendors or contractors identified, or draft agreements in place. The applicant is confident it will identify qualified providers and enter into the necessary arrangements at the appropriate time.

Anesthesiology
Pathology
Radiology
Pharmacy consultant
Blood supplier
Hospital transfer agreement(s)

2. **Describe the effects of competition and/or duplication of the proposal on the health care system, including the impact to consumers and existing providers in the service area. Discuss any instances of competition and/or duplication arising from your proposal including a description of the effect the proposal will have on the utilization rates of existing providers in the service area of the project.**

A. <u>Positive Effects</u>

This proposal will have a positive effect on competition, consumer and provider choice, and heath care costs.

There is a special need in the service area for a physician controlled ASTC. Every ASTC in the service area has controlling ownership interests held by a hospital, or where it does not have a controlling interest, the hospital has reserved powers giving it *de facto* control over insurance contracting and other important matters. While physician and hospital jointly-owned ASTCs are a very common and attractive model, there is a need for a physician controlled ASTC in the service area.

Since the merger of Wellmont Health Systems and Mountain States Health Alliance into Ballad Health, there is now only one hospital system operating in the entire upper East Tennessee region, thereby reducing competition. Since all ASTCs in the market are controlled by what are now Ballad hospitals, consumers and physicians have little choice as to the ultimate provider of ambulatory surgical services. Ballad may be considering a sale of its majority interests in area ASTCs to another heath care system. But even if this were to occur, there would still be no physician-controlled ASTCs in the service area, and consumer and provider choice would still be limited.

The initial surgeons and proceduralists who have evidenced their intent to invest in Meadowview ASC, have entered a number of value-based arrangements with managed care organizations. Under these arrangements, physicians and surgeons aim to meet high quality standards while at the same time reducing overall costs. Meadowview ASC will permit these surgeons to directly control contracting with managed care organizations in a way that complements their value-based arrangements for office services to their patients

As a physician-controlled facility, Meadowview will facilitate several enhancements to the health care delivery system in the area, and resulting benefits to patients and physicians. These include (1) value-based contracting with third party payors; (2) innovative and mutually beneficial arrangements with Medicare/CMS such as gain-sharing arrangements; (3) lower pricing structures which decrease out of pocket costs to patients; and (4) more physician control over management of the surgery center.

B. <u>Negative Effects</u>

This proposal would not represent an unnecessary duplication of services. ASTCs in the service area are operating well above the utilization threshold in the Sate Heath Plan, measured by the number of surgical cases per licensed ambulatory surgical room. This proposal would bring additional outpatient surgical capacity, with no significant negative impact on utilization volumes of existing ASTCs.

This proposal will not have a negative effect on competition. The State of Tennessee's public policy to promote and protect health care competition in the area is reflected in the Certificate of Public Advantage that was issued in approving the merger of Wellmont Health Systems and Mountain States Health Alliance. This proposal is consistent with that public policy.

3. A. **Discuss the availability of and accessibility to human resources required by the proposal, including clinical leadership and adequate professional staff, as per the State of Tennessee licensing requirements and/or requirements of accrediting agencies, such as the Joint Commission and Commission on Accreditation of Rehabilitation Facilities.**

This project will require 18.7 FTE clinical and non-clinical staff in Year 1, plus an additional 4.0 FTE contractual personnel. The ASTC will maintain adequate staffing at least to the level required by applicable licensing and accreditation requirements.

Meadowview ASC will have a management services agreement with HMG Medical Management, LLC. HMG Medical Management, LLC, has extensive experience in managing surgery centers, having managed both Holston Valley Ambulatory Surgery Center and Sapling Grove Ambulatory Surgery Center since 2006.

B. **Verify that the applicant has reviewed and understands all licensing and/or certification as required by the State of Tennessee and/or accrediting agencies such as the Joint Commission for medical/clinical staff. These include, without limitation, regulations concerning clinical leadership, physician supervision, quality assurance policies and programs, utilization review policies and programs, record keeping, clinical staffing requirements, and staff education.**

The applicant has or will have the executive management needed to develop and operate the ASTC in compliance with all licensing and accreditation requirements, and commits to doing so.

Meadowview ASC will have a management services agreement with HMG Medical Management, LLC. HMG Medical Management, LLC, has extensive experience in managing surgery centers, having managed both Holston Valley Ambulatory Surgery Center and Sapling Grove Ambulatory Surgery Center since 2006.

C. **Discuss the applicant's participation in the training of students in the areas of medicine, nursing, social work, etc. (e.g., internships, residencies, etc.).cxd**

As a newly formed entity and a proposed new facility, the applicant currently participates in no such programs, but anticipates it will participate in such programs at the appropriate time.

4. **Identify the type of licensure and certification requirements applicable and verify the applicant has reviewed and understands them. Discuss any additional requirements, if applicable. Provide the name of the entity from which the applicant has received or will receive licensure, certification, and/or accreditation.**

Licensure: Tennessee Board for Licensing Health Care Facilites

Certification Type (e.g. Medicare SNF, Medicare LTAC, etc.): ASTC

Accreditation (i.e., Joint Commission, CARF, etc.): To be sought from the Accreditation Association for Ambulatory Health Care (AAAHC).

A. If an existing institution, describe the current standing with any licensing, certifying, or accrediting agency. Provide a copy of the current license of the facility and accreditation designation.

N/A. This is a proposed new facility.

B. For existing providers, please provide a copy of the most recent statement of deficiencies/plan of correction and document that all deficiencies/findings have been corrected by providing a letter from the appropriate agency.

N/A. This is a proposed new facility.

C. Document and explain inspections within the last three survey cycles which have resulted in any of the following state, federal, or accrediting body actions: suspension of admissions, civil monetary penalties, notice of 23-day or 90-day termination proceedings from Medicare/Medicaid/TennCare, revocation/denial of accreditation, or other similar actions.

1) Discuss what measures the applicant has or will put in place to avoid similar findings in the future.

N/A. This is a proposed new facility.

5. Respond to all of the following and for such occurrences, identify, explain and provide documentation:

A. Has any of the following:

1) Any person(s) or entity with more than 5% ownership (direct or indirect) in the applicant (to include any entity in the chain of ownership for applicant);

2) Any entity in which any person(s) or entity with more than 5% ownership (direct or indirect) in the applicant (to include any entity in the chain of ownership for applicant) has an ownership interest of more than 5%; and/or

3) Any physician or other provider of health care, or administrator employed by any entity in which any person(s) or entity with more than 5% ownership in the applicant (to include any entity in the chain of ownership for applicant) has an ownership interest of more than 5%.

B. Been subjected to any of the following:

1) Final Order or Judgment in a state licensure action;

No.

2) Criminal fines in cases involving a Federal or State health care offense;

No.

3) Civil monetary penalties in cases involving a Federal or State health care offense;

No.

4) **Administrative monetary penalties in cases involving a Federal or State health care offense;**

No.

5) **Agreement to pay civil or administrative monetary penalties to the federal government or any state in cases involving claims related to the provision of health care items and services; and/or**

No.

6) **Suspension or termination of participation in Medicare or Medicaid/TennCare programs.**

No.

7) **Is presently subject of/to an investigation, regulatory action, or party in any civil or criminal action of which you are aware.**

No.

8) **Is presently subject to a corporate integrity agreement.**

No.

6. **Outstanding Projects:**

N/A.

A. **Complete the following chart by entering information for each applicable outstanding CON by applicant or share common ownership; and**

N/A.

* **Annual Progress Reports – HSDA Rules require that an Annual Progress Report (APR) be submitted each year. The APR is due annually until the Final Project Report (FPR) is submitted (FPR is due within 90 ninety days of the completion and/or implementation of the project). Brief progress status updates are requested as needed. The project remains outstanding until the FPR is received.**

B. **Provide a brief description of the current progress, and status of each applicable outstanding CON.**

N/A.

7. **Equipment Registry – For the applicant and all entities in common ownership with the applicant.**

N/A.

A. Do you own, lease, operate, and/or contract with a mobile vendor for a Computed Tomography scanner (CT), Linear Accelerator, Magnetic Resonance Imaging (MRI), and/or Positron Emission Tomographer (PET)? ____________

No.

B. If yes, have you submitted their registration to HSDA? If you have, what was the date of submission?_____

N/A.

C. If yes, have you submitted your utilization to Health Services and Development Agency? If you have, what was the date of submission? _____

N/A.

QUALITY MEASURES

Please verify that the applicant will report annually using forms prescribed by the Agency concerning continued need and appropriate quality measures as determined by the Agency pertaining to the certificate of need, if approved.

The applicant verifies it will do so.

SECTION C: STATE HEALTH PLAN QUESTIONS

T.C.A. §68-11-1625 requires the Tennessee Department of Health's Division of Health Planning to develop and annually update the State Health Plan (found at http://www.tn.gov/health/topic/health-planning). The State Health Plan guides the State in the development of health care programs and policies and in the allocation of health care resources in the State, including the Certificate of Need program. The 5 Principles for Achieving Better Health are from the State Health Plan's framework and inform the Certificate of Need program and its standards and criteria.

Discuss how the proposed project will relate to the 5 Principles for Achieving Better Health found in the State Health Plan.

1. **The purpose of the State Health Plan is to improve the health of the people of Tennessee.**

   The proposed Meadowview ASC will help improve the lives of its patients by providing a high quality of treatment and care for its patients.

2. **People in Tennessee should have access to health care and the conditions to achieve optimal health.**

   The proposed Meadowview ASC will improve access to ambulatory surgical care and services will be provided in accordance with the highest quality standards.

3. **Health resources in Tennessee, including health care, should be developed to address the health of people in Tennessee while encouraging economic efficiencies.**

   The proposed Meadowview ASC will improve access to care and provide high quality ambulatory surgical services in an economically efficient manner.

4. **People in Tennessee should have confidence that the quality of health care is continually monitored and standards are adhered to by providers.**

   The proposed Meadowview ASC will be licensed by the State of Tennessee and accredited by a qualified accrediting institution. It will maintain compliance with all applicable quality standards.

5. **The state should support the development, recruitment, and retention of a sufficient and quality health workforce.**

   The applicant agrees with this policy statement. The proposed Meadowview ASC will maintain staffing at a level consistent with the highest quality standards.

PROOF OF PUBLICATION

Attach the full page of the newspaper in which the notice of intent appeared with the mast and dateline intact or submit a publication affidavit from the newspaper that includes a copy of the publication as proof of the publication of the letter of intent.

A Publisher's Affidavit has been requested and will be submitted timely.

NOTIFICATION REQUIREMENTS

(Applies only to Nonresidential Substitution-Based Treatment Centers for Opiate Addiction)

Note that T.C.A. §68-11-1607(c)(9)(A) states that "...Within ten (10) days of the filing of an application for a nonresidential substitution-based treatment center for opiate addiction with the agency, the applicant shall send a notice to the county mayor of the county in which the facility is proposed to be located, the state representative and senator representing the house district and senate district in which the facility is proposed to be located, and to the mayor of the municipality, if the facility is proposed to be located within the corporate boundaries of a municipality, by certified mail, return receipt requested, informing such officials that an application for a nonresidential substitution-based treatment center for opiate addiction has been filed with the agency by the applicant."

Failure to provide the notifications described above within the required statutory timeframe will result in the voiding of the CON application.

Please provide documentation of these notifications.

N/A.

DEVELOPMENT SCHEDULE

T.C.A. §68-11-1609(c) provides that a Certificate of Need is valid for a period not to exceed three (3) years (for hospital projects) or two (2) years (for all other projects) from the date of its issuance and after such time shall expire; provided, that the Agency may, in granting the Certificate of Need, allow longer periods of validity for Certificates of Need for good cause shown. Subsequent to granting the Certificate of Need, the Agency may extend a Certificate of Need for a period upon application and good cause shown, accompanied by a non-refundable reasonable filing fee, as prescribed by rule. A Certificate of Need which has been extended shall expire at the end of the extended time period. The decision whether to grant such an extension is within the sole discretion of the Agency, and is not subject to review, reconsideration, or appeal.

1. **Complete the Project Completion Forecast Chart on the next page. If the project will be completed in multiple phases, please identify the anticipated completion date for each phase.**

   A completed Project Completion Forecast Chart is attached following this page.

2. **If the response to the preceding question *indicates that the applicant does not anticipate completing the project within the period of validity as defined in the preceding paragraph,***

please state below any request for an extended schedule and document the "good cause" for such an extension.

N/A. An extended period of validity is not requested.

PROJECT COMPLETION FORECAST CHART

Assuming the Certificate of Need (CON) approval becomes the final HSDA action on the date listed in Item 1. below, indicate the number of days from the HSDA decision date to each phase of the completion forecast.

<u>Phase</u>	<u>Days Required</u>	<u>Anticipated Date [Month/Year]</u>
1. Initial HSDA decision date		Oct. 2018
2. Architectural and engineering contract signed	N/A	July 2018
3. Construction documents approved by the Tennessee Department of Health	60	Jan 2019
4. Construction contract signed	N/A	Jun 2018
5. Building permit secured	90	Jan 2019
6. Site preparation completed	N/A	N/A
7. Building construction commenced	90	Jan 2019
8. Construction 40% complete	180	April 2019
9. Construction 80% complete	270	July 2019
10. Construction 100% complete (approved for occupancy	300	August 2019
11. *Issuance of License	330	Sept. 2019
12. *Issuance of Service	330	Sept. 2019
13. Final Architectural Certification of Payment	330	Sept 2019
14. Final Project Report Form submitted (Form HR0055)	360	Oct. 2019

***For projects that <u>*DO NOT*</u> involve construction or renovation, complete Items 11 & 12 only.**

NOTE: If litigation occurs, the completion forecast will be adjusted at the time of the final determination to reflect the actual issue date

LIST OF ATTACHMENTS

MEADOWVIEW ASC, LLC

Organizational documents and ownership chart	Attachment A, 4, A
Draft management agreement	Attachment Section A, 5
Lease (sub-lease from HMG)	Attachment Section A, 6A
Plot plan	Attachment Section A, 6B(1)
Floor plan	Attachment Section A, 6B(2)
ASTC utilization data	Attachment Section B, Need, CON Standards, 1
Letter of Interest	Attachment Section C, Need, CON Standards, 2
Map of the proposed service area	Attachment Section B, Need, 3
Population and demographics table	Attachment Section B, Need, 4A
General Contractor Letter	Attachment Section B, Economic Feasibility, 1
Funding letter	Attachment Section B, Economic Feasibility, 2
Audited financial statements	Attachment Section B, Economic Feasibility, 6

000965176

ARTICLES OF ORGANIZATION
LIMITED LIABILITY COMPANY

SS-4270

Tre Hargett
Secretary of State

Division of Business Services
Department of State
State of Tennessee
312 Rosa L. Parks AVE, 6th FL
Nashville, TN 37243-1102
(615) 741-2286

Filing Fee: $50.00 per member
(minimum fee = $300.00, maximum fee = $3,000.00)

For Office Use Only
-FILED-
Control # 000965176

B0548-8477 05/22/2018 3:08 PM Received by Tennessee Secretary of State Tre Hargett

The Articles of Organization presented herein are adopted in accordance with the provisions of the Tennessee Revised Limited Liability Company Act.

1. The name of the Limited Liability Company is: Meadowview ASC, LLC

(Note: Pursuant to the provisions of T.C.A. §48-249-106, each Limited Liability Company name must contain the words "Limited Liability Company" or the abbreviation "LLC" or "L.L.C.")

2. Name Consent: (Written Consent for Use of Indistinguishable Name)
☐ This entity name already exists in Tennessee and has received name consent from the existing entity.

3. This company has the additional designation of: None

4. The name and complete address of the Limited Liability Company's initial registered agent and office located in the state of Tennessee is:
RANDALL E SERMONS
LEGAL DEPARTMENT
2323 N JOHN B DENNIS HWY
KINGSPORT, TN 37660-4771
SULLIVAN COUNTY

5. Fiscal Year Close Month: December

6. If the document is not to be effective upon filing by the Secretary of State, the delayed effective date and time is:
(none) (Not to exceed 90 days)

7. The Limited Liability Company will be:
☐ Member Managed ☐ Manager Managed ☑ Director Managed

8. Number of Members at the date of filing: 1

9. Period of Duration: Perpetual

10. The complete address of the Limited Liability Company's principal executive office is:
LEGAL DEPARTMENT
2323 N JOHN B DENNIS HWY
KINGSPORT, TN 37660-4771
SULLIVAN COUNTY

ARTICLES OF ORGANIZATION
LIMITED LIABILITY COMPANY

SS-4270

B0548-8478 05/22/2018 3:08 PM Received by Tennessee Secretary of State Tre Hargett

Division of Business Services
Department of State
State of Tennessee
312 Rosa L. Parks AVE, 6th FL
Nashville, TN 37243-1102
(615) 741-2286

Filing Fee: $50.00 per member
(minimum fee = $300.00, maximum fee = $3,000.00)

Tre Hargett
Secretary of State

For Office Use Only

-FILED-

Control # 000965176

The name of the Limited Liability Company is: Meadowview ASC, LLC

11. The complete mailing address of the entity (if different from the principal office) is:
LEGAL DEPARTMENT
2323 N JOHN B DENNIS HWY
KINGSPORT, TN 37660-4771

12. Non-Profit LLC (required only if the Additional Designation of "Non-Profit LLC" is entered in section 3.)

☐ I certify that this entity is a Non-Profit LLC whose sole member is a nonprofit corporation, foreign or domestic, incorporated under or subject to the provisions of the Tennessee Nonprofit Corporation Act and who is exempt from franchise and excise tax as not-for-profit as defined in T.C.A. §67-4-2004. The business is disregarded as an entity for federal income tax purposes.

13. Professional LLC (required only if the Additional Designation of "Professional LLC" is entered in section 3.)

☐ I certify that this PLLC has one or more qualified persons as members and no disqualified persons as members or holders.

Licensed Profession:

14. Series LLC (optional)

☐ I certify that this entity meets the requirements of T.C.A. §48-249-309(a) & (b)

15. Obligated Member Entity (list of obligated members and signatures must be attached)

☐ This entity will be registered as an Obligated Member Entity (OME) Effective Date: (none)

☐ I understand that by statute: THE EXECUTION AND FILING OF THIS DOCUMENT WILL CAUSE THE MEMBER(S) TO BE PERSONALLY LIABLE FOR THE DEBTS, OBLIGATIONS AND LIABILITIES OF THE LIMITED LIABILITY COMPANY TO THE SAME EXTENT AS A GENERAL PARTNER OF A GENERAL PARTNERSHIP. CONSULT YOUR ATTORNEY.

16. This entity is prohibited from doing business in Tennessee:

☐ This entity, while being formed under Tennessee law, is prohibited from engaging in business in Tennessee.

17. Other Provisions:

Electronic	General Counsel
Signature	Title/Signer's Capacity
Randall E Sermons	May 22, 2018 3:08PM
Printed Name	Date

Tre Hargett
Secretary of State

Division of Business Services
Department of State
State of Tennessee
312 Rosa L. Parks AVE, 6th FL
Nashville, TN 37243-1102

Meadowview ASC, LLC
LEGAL DEPARTMENT
2323 N JOHN B DENNIS HWY
KINGSPORT, TN 37660-4771

May 22, 2018

Filing Acknowledgment

Please review the filing information below and notify our office immediately of any discrepancies.

SOS Control # :	000965176	Formation Locale:	TENNESSEE
Filing Type:	Limited Liability Company - Domestic	Date Formed:	05/22/2018
Filing Date:	05/22/2018 3:08 PM	Fiscal Year Close:	12
Status:	Active	Annual Report Due:	04/01/2019
Duration Term:	Perpetual	Image # :	B0548-8477
Managed By:	Director Managed		
Business County:	SULLIVAN COUNTY		

Document Receipt

Receipt # : 004098376	Filing Fee:	$300.00
Payment-Credit Card - State Payment Center - CC #: 3731147173		$300.00

Registered Agent Address:
RANDALL E SERMONS
LEGAL DEPARTMENT
2323 N JOHN B DENNIS HWY
KINGSPORT, TN 37660-4771

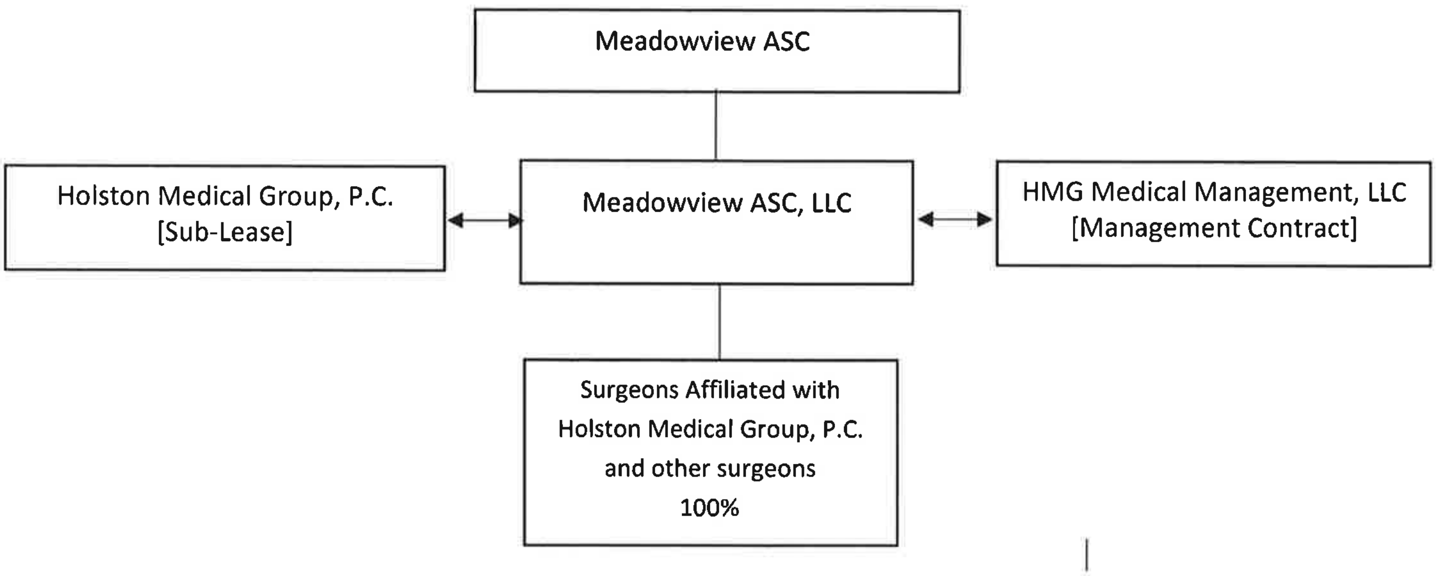
Principal Address:
LEGAL DEPARTMENT
2323 N JOHN B DENNIS HWY
KINGSPORT, TN 37660-4771

Congratulations on the successful filing of your Articles of Organization for Meadowview ASC, LLC in the State of Tennessee which is effective on the date shown above. You must also file this document in the office of the Register of Deeds in the county where the entity has its principal office if such principal office is in Tennessee. Please visit the Tennessee Department of Revenue website (apps.tn.gov/bizreg) to determine your online tax registration requirements. If you need to obtain a Certificate of Existence for this entity, you can request, pay for, and receive it from our website.

You must file an Annual Report with this office on or before the Annual Report Due Date noted above and maintain a Registered Office and Registered Agent. Failure to do so will subject the business to Administrative Dissolution/Revocation.

Tre Hargett
Secretary of State

Meadowview ASC Ownership Chart



MANAGEMENT SERVICES AGREEMENT

BY AND BETWEEN

MEADOWVIEW ASC, LLC

AND

HMG MEDICAL MANAGEMENT, LLC

TABLE OF CONTENTS

MANAGEMENT SERVICES AGREEMENT

BY AND BETWEEN

MEADOWVIEW ASC, LLC

AND

HMG MEDICAL MANAGEMENT, LLC

This Management Services Agreement (the "Agreement") is by and between MEADOWVIEW ASC, LLC, a Tennessee limited liability company, hereinafter referred to as "Owner" and HMG MEDICAL MANAGEMENT, LLC, a Tennessee limited liability company, hereinafter referred to as "Manager", effective as of ______________

RECITALS

WHEREAS, Owner owns and operates a freestanding ambulatory surgery center ("Center") located at 103 W. Stone Drive, Kingsport, Tennessee, providing surgical and other outpatient services (the "Surgery Center"); and

WHEREAS, Owner desires Manager to assist in the management and ongoing operations of the Surgery Center during the term hereof and Manager has agreed to accept such management responsibilities subject to the terms herein.

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, and such other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by the parties, Owner and Manager agree as follows:

1. Recitations

The parties acknowledge that the above recitations are true and correct and are incorporated herein by this reference.

2. Management Services.

2.1. Engagement of Manager

Owner hereby engages Manager, as Owner's sole and exclusive manager, to supervise and manage the daily operations of the Surgery Center on the basis hereafter set forth, subject to the policies established by the Owner and provided in advance to Manager. Manager hereby accepts the engagement on the terms set forth in this Agreement.

2.2. Duties of Manager

Subject to the limitations set forth in this Agreement, Manager shall have exclusive authority and responsibility, subject to the control and direction of the Owner as the licensee of the Surgery Center, to manage, conduct, supervise and administer the daily operations of the Surgery Center. Manager shall perform, or contract for the performance of, such functions, and shall have the responsibility and commensurate authority to provide to and on behalf of the Owner the management services more specifically described in this Section 2.2, subject to the control and direction of the Owner as the provider of the Surgery Center. Subject to the foregoing, Manager's specific responsibilities shall be the following:

2.2.1. *Licenses*

Manager shall use its reasonable best efforts to obtain and maintain in the name of the Owner all necessary and appropriate licenses, certifications, approvals, permits and accreditation for the operation of the Surgery Center. Manager, through its duly authorized officers, shall have the authority to execute on behalf of Owner any applications and other agreements necessary for the certification of the Surgery Center and to participate in the Medicare and Medicaid programs. All fees associated with such licenses, certifications, approvals, permits and accreditations are the sole responsibility of Owner.

2.2.2. *Executive Management and Administration*

Manager shall supervise the executive management of the business operations of the Surgery Center and all necessary administrative matters pertaining to the Surgery Center, including, without limitation, supervision of the Surgery Center's staff and personnel.

2.2.3. *Accounting and Financial Support.*

2.2.3.1. Manager shall maintain and update, as necessary, accounting procedures, controls and systems for the preparation of appropriate financial reports for the efficient management and planning of the Owner's business operations.

2.2.3.2. Manager shall oversee and supervise the development, preparation and maintenance, consistent with prevailing business practices, of records relating to the financial affairs and business of the Surgery Center. Without limiting the generality of the foregoing, Manager shall (i) oversee and supervise maintenance of the books of account of the Surgery Center, including all journals and ledgers, check registers and payroll records; (ii) oversee and supervise the processing of vendors' invoices and other accounts payable; (iii) oversee and supervise the preparation of payroll checks from time sheet summaries prepared under Manager's supervision; and (iv) oversee and supervise the preparation of payroll tax returns.

2.2.3.3. Manager shall prepare monthly unaudited financial statements and volume reports, including (i) monthly bank reconciliations; (ii) monthly profit and loss statements; (iii) monthly balance sheets and (iv) on or before the thirtieth (30th) day following the end of each calendar quarter (A) an accrual basis balance sheet of the Surgery Center at the end of the previous quarter; (B) an accrual basis statement of income for the quarter then ended of the "available cash," meaning the amount of cash and marketable securities of the Surgery Center on hand at the end of the report period, reduced by (x) all outstanding and unpaid current cash obligations of the Surgery Center at the end of such report period (including those which are in dispute) and (y) provisions for reserves, for reasonably anticipated cash expenses and contingencies (which may include debt service on the Surgery Center's indebtedness and management fees payable to Manager), but without deduction for depreciation and other non-cash expenses at the end of such quarter; and (C) a list of all outstanding and unpaid obligations of the Surgery Center at the end of such report period.

2.2.3.4. Manager shall prepare and deliver to (i) Owner, such other accounting or financial reports, records and items as Owner may reasonably request and (ii) to Owner's members, such other accounting or financial reports, records and items as Owner's members may reasonably request, subject to increased management fees for additional costs incurred by Manager in producing such reports, records or items. Owner shall be responsible for obtaining, at Owner's expense, the annual audit of Owner, if any, as required by its Board of Governors, and the auditor preparing the audit of Owner shall be the same auditor as that is employed by Manager.

2.2.4. *Education. Documents. Reports and Patient Information.*

Manager shall be responsible to maintain and update, as necessary, systems for education and training, operational documentation, reports and filings, and patient files concerning the Surgery Center's staff, physicians and patients. In connection therein, Manager shall provide the following services:

2.2.4.1. Education and Training.

Manager shall prepare the curriculum for and train the nurses, technicians, nurse aides and other health providers involved in the administration of the Surgery Center.

2.2.4.2. Documents.

Manager shall provide forms, records and documents as may be reasonably necessary and/or required by law to assure the availability of appropriate and accurate information for the administration of the Surgery Center.

2.2.4.3. Operating Reports.
Manager shall prepare all reports of operations and the Owner's activity which may be required by state, local or federal regulatory agencies.

2.2.4.4. Patient Files.
Manager shall maintain patient files as required by industry standards and applicable law. Owner and Manager agree that all patient medical records shall be treated as confidential so as to comply with all applicable laws regarding the confidentiality of patient records, including, without limitation, the privacy standards promulgated under the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"). The parties hereby acknowledge that Manager shall be a "Business Associate" of Owner, as that term is defined in the regulations implementing HIPAA, and Manager's use of "Protected Health Information," as that term is defined in the regulations implementing HIPAA, Manager shall execute the Owner's Business Associate Agreement set forth on Exhibit A and hereby incorporated by reference. Manager shall implement patient consent forms for the Surgery Center which shall provide that the respective patient is notified of physician and hospital ownership in the Owner and that the patient is free to use the provider of their choice in selecting a facility for medical or surgical services consistent with AMA ethics guidelines.

2.2.5. Tax Returns.
Owner, at Owner's expense, shall be responsible for the preparation and filing of all local, state and federal tax returns for the Owner, as applicable. Manager shall reasonably cooperate in the preparation of all tax returns.

2.2.6. Capital Expenditures.
Other than as may be specifically provided for herein or as otherwise provided for in the Surgery Center's annual budget, Manager shall not purchase or lease any real property, equipment, furniture, furnishings or any other capital items for the Surgery Center without the prior written approval of Owner. Such capital expenditures shall be purchased in the name of Owner.

2.2.7. Supplies.
During the term of this Agreement, Manager shall arrange for the purchase of supplies, at Owner's expense, necessary to the operation of the Surgery Center.

2.2.8. Accounts Payable.
Manager shall be responsible for the issuing of timely payment of all accounts payable of the Surgery Center, but providing funds for such payments shall be the sole responsibility of Owner.

2.2.9. Records.
Manager shall maintain adequate records reflecting management and administrative services provided pursuant to this Agreement and shall allow Owner access to such records relating to the operation of the Surgery Center.

2.2.10. Maintenance.
Manager shall subcontract, at Owner's expense, on-going inspections of the Surgery Center's facilities and equipment, and, at Owner's expense, shall maintain the Surgery Center's facilities and equipment in good operating condition and repair to the extent financially feasible under the Budget (as defined hereinbelow). Manager shall provide recommendations to Owner with respect to any capital improvements to the Surgery Center's facilities, and shall promptly report to Owner any significant maintenance conditions which adversely affect or could adversely affect the services performed at the Surgery Center.

2.3. Contracts.
Manager shall be empowered to negotiate and administer on behalf of the Owner, all contracts, within parameters established by Owner, for services to be performed by or for the Surgery Center in the ordinary course of business; provided, however, Owner shall retain the right to negotiate and approve

all managed care contracts, provider agreements and reimbursement agreements regarding the Surgery Center services, and establish all fees and prices charged for the programs and services of the Surgery Center upon recommendation of Manager. Manager shall not implement a fee schedule, or revisions thereto, without first obtaining the written approval of Owner.

2.4. Investigations and Litigation.

Manager shall respond to and oversee, subject to Owner's direction, any governmental investigation, whistleblower or other complaint against the Surgery Center or Owner and shall notify Owner of all such proceedings. All expenses associated with such response shall be borne by Owner.

2.5. Budget and Business Plan.

Annually and at least sixty (60) days prior to the commencement of each fiscal year of Owner, Manager shall prepare and deliver to Owner for its review and approval a proposed operating and capital budget ("Budget"), setting forth an estimate of the Surgery Center's revenues, expenses and capital expenditures for the upcoming fiscal year. Owner shall review the proposed Budget, and either approve the proposed Budget or request changes to it within thirty (30) days after receiving the proposed Budget. When acceptable to Owner, the Budget shall be approved by Owner and may thereafter be revised only upon approval of Owner, which approvals shall not be unreasonably withheld. If Owner fails to approve the proposed Budget by the beginning of the fiscal year just commencing, the Budget for the fiscal year just ending shall be deemed to be the Budget for the fiscal year just commencing until Owner approves a new Budget. Manager shall manage and administer the operations of the Surgery Center in a manner such that the actual costs, expenses and capital expenditures of the operation and maintenance of the Surgery Center during the applicable period of Owner's fiscal year shall, to the extent possible, be consistent with the Budget for that fiscal year.

2.6. Insurance.

In the amounts deemed sufficient by Owner, but in no event less than the amounts set forth below, Manager, at Owner's expense, shall, on behalf of, and in the name of, Owner, procure and maintain in full force and effect, insurance as set forth below. Manager shall not change or permit to be changed the limits of liability of any insurance policy maintained on Owner's behalf without first obtaining Owner's approval.

Worker's Compensation	Statutory Limits
Comprehensive General Liability	$1,000,000 per occurrence / $3,000,000 aggregate
Professional Liability	$1,000,000 per occurrence / $3,000,000 aggregate
Excess Liability / Umbrella	$5,000,000 per occurrence

It is further agreed that all such policies, except the Worker's Compensation insurance policies, are to be written or amended to include agents, servants, employees, officers and trustees of Manager as additional named insureds.

2.7. Standards, Policies and Procedures.

Manager shall direct the drafting, implementation, monitoring and enforcement of, and, where appropriate, revisions to all standards, policies, and procedures necessary for the proper operation of the Surgery Center. All new and revised standards, policies and procedures shall be first approved by Owner prior to the implementation thereof. Manager shall use its reasonable best efforts to ensure compliance by all Personnel (as defined below) with all such standards, policies, and procedures.

2.8. Compliance Plan.

Manager will develop, with the assistance of subcontractors as appropriate, and recommend to the Owner a corporate compliance plan (the "Compliance Plan"). Upon approval of the Compliance Plan by the Owner, Manager shall implement the Compliance Plan. All costs of developing the Compliance Plan shall be borne by Owner. The Compliance Plan shall promulgate policies, principles, rules and ethical standards to be followed by Manager, all of Owner's employees, and other persons who work with Owner. The Compliance Plan will be of a kind and type appropriate for the Surgery Center and will cover those matters that are typically found in a compliance plan for medical surgical services.

Manager will supervise and monitor compliance with the Compliance Plan and will establish, at the expense of Owner, a toll- free compliance hotline. Manager will interface with Owner's compliance officer.

2.9. Quality Assurance.
Manager will develop and recommend a quality assurance program for the Owner's approval, at the expense of Owner. Once such program is approved by the Owner, Manager will implement and supervise the quality assurance program.

2.10. HIPAA.
Manager will develop, with the assistance of subcontractors as appropriate, and recommend policies and procedures to comply with the Health Insurance Portability and Accountability Act of 1996 ("HIPAA Policies") for the Owner's approval. Once such HIPAA Policies are approved by Owner, Manager will implement such policies and will supervise and monitor compliance with the HIPAA Policies. The HIPAA Policies will be of the kind and type appropriate for the Surgery Center and will comply with applicable law.

2.11. Day-To-Day Management Services.
Manager shall, in addition to the services enumerated above, provide the services necessary to supervise and direct the management of the day-to-day operations of the Surgery Center, subject to the control and direction of Owner.

3. Operating Account.
Manager shall maintain an operating account in Owner's name in such banks, savings associations and other financial institutions as Owner, in its discretion determines is reasonable and necessary (the "Operating Account"). The signatures required on such account shall be determined by Owner. All revenues of the Surgery Center derived from the provision of services at the Surgery Center, other than professional fees of physicians performing professional services in conjunction with the Surgery Center, shall be deposited into the Operating Account promptly upon receipt by Owner or Manager. The Operating Account shall be used for the payment of all accounts payable, operating expenses of the Surgery Center, including the Management Fee and the Personnel Reimbursement (both as defied in Exhibit B). Owner shall ensure that the Operating Account at all times contains sufficient funds to pay the accounts payable and operating expenses of the Surgery Center.

4. Billing and Collection Services.
Manager will also provide billing and collection services for the Surgery Center, as follows:

4.1. Authority and Responsibility of Manager.
Manager shall bill patients for the outpatient services provided by the Surgery Center, and provide collection services relating to such accounts. All billings for such services shall be in the name of and under the provider number of Owner. Owner hereby appoints Manager to be Owner's true and lawful attorney-in- fact, for the following purposes: (i) to bill patients in Owner's name and on Owner's behalf; (ii) to collect accounts receivable resulting from such billing in Owner's name and on Owner's behalf; (ii) to receive payments from insurance companies, prepayments from health care plans, and all other third-party payors; (iv) to take possession of and endorse in the name of Owner any notes, checks, money orders, insurance payments and other instruments received in payment for services provided by Owner; and (v) upon prior approval of Owner, to initiate proceedings in the name of Owner to collect any accounts and monies owed to Owner, to enforce the rights of Owner as creditor under any contract or in connection with the rendering of any service, and to contest adjustments and denials by third-party payors.

4.2. Governmental Receivables.
To the extent required by applicable laws and regulations, the scope of Manager's authority as an attorney-in-fact for Owner shall be restricted when billing and collecting governmental receivables in such a manner as to comply in all respects with the Medicare Rules Prohibiting the Reassignment of Medicare Benefits payable to the Owner under Section 3060 of the Medicare Carriers Manual (the "Reassignment Rules"). To comply with the Reassignment Rules, for Medicare, Medicaid and other governmental receivables, Manager will not receive payments on any governmental receivables or take initial possession of or negotiate or endorse in the name of the Owner any such payments. All

payments of governmental receivables shall be sent to a bank (in an electronic format if available), chosen by Owner and reasonably acceptable to Manager, for deposit in an account which is under the sole control of Owner (the "Owner Governmental Receivables Account"). Manager shall instruct each governmental payor to remit all payments directly to the Owner Governmental Receivables Account. Owner shall instruct the bank to transfer all of the funds in the Owner Governmental Receivables Account to the Operating Account on a weekly basis.

4.3. Billing and Collection Services.

Manager will use commercially reasonable efforts to obtain reimbursement for Owner charges for the accounts placed with Manager hereunder (the "Accounts"), through the billing, tracking, rebilling, follow-up and collection activities relating to such accounts (the "Billing Services"). Manager will:

i) provide billing, tracking, rebilling, follow-up, insurance processing and posting of the Accounts;

ii) prepare and send to Owner by the 15th of each month, Manager's standard monthly collection reports for the previous month;

iii) establish a mutually agreed-upon procedure, including documentation, for handling unpaid accounts and for the request, use, maintenance and return of Owner's patient files;

iv) use commercially reasonable efforts at Owner's expense, to convert Owner's data to Manager's computers in a timely fashion, provided that Manager does not warrant or guarantee that such conversion will occur within any specified time;

v) as instructed by Owner, turn over payments received by Manager to Owner or place payments into a financial institution designated by Owner within three working days of receipt of such payment;

vi) pay on behalf of Owner, at Owner's expense, all costs for postage, phone bills, forms and supplies used by Manager;

vii) provide monthly information regarding Accounts recommended to be turned over for collections to an outside collection agency. Owner may approve of the agency to be used, as well as the Accounts to be designated, for outside collection actions. Manager shall be responsible for the fees paid, if any, to outside collection agencies. Manager shall consult with Owner regarding the selection of the outside collection agencies used to provide such services; and

viii) provide, at Owner's ·expense, information system items and services related to the processing of claims and other data management services.

4.4. Billing and Collection Standards.

4.4.1. *GAAP*

In performing its duties and obligations under this Agreement, Manager shall provide the Billing Services in a competent and professional manner, in accordance with generally accepted billing and collection practices.

4.4.2. *Compliance*

Manager shall, for and on behalf of Owner, use commercially reasonable efforts to assure that the Billing Services comply with the requirements of any statute, ordinance, law, rule, regulation or order of any governmental or regulatory body having jurisdiction respecting the Billing Services. Manager shall establish and administer procedures for the prompt and efficient collection of the Surgery Center's accounts receivable including compliance with the reimbursement requirements under Medicare, Medicaid, TennCare, commercial insurance, and other third party payor programs.

4.5. Owner Responsibilities in Respect of Billing and Collection Services.

4.5.1. *General.*
Owner will cooperate with Manager in every reasonable respect to allow Manager to perform the Billing Services.

4.5.2. *Provision of Billing Information.*
Owner will furnish Manager with all information reasonably necessary to enable Manager to perform the Billing Services under this Agreement. As part of such responsibility, Owner will provide to Manager:

4.5.2.1. All patient and billing information deemed appropriate or necessary by Manager regarding the Accounts; and

4.5.2.2. Access to requested patient files, superbills or HCFA 1500 forms or revised versions thereof, face sheets, itemized bills and other relevant account documentation.

4.5.3. *Other Obligations.*
Owner shall pay for all costs of printing and supplies used at Owner's facility, including, but not limited to, receipts, appointment books, superbills and charge slips.

4.6. Representative.
Owner will designate a representative to assist Manager in data conversion.

5. Personnel.

5.1. Personnel for the Surgery Center.
Manager shall employ and provide to Owner those professional and non-professional personnel determined necessary by Manager (in consultation with Owner) at such times as determined necessary by Manager (in consultation with Owner) to provide services at the Surgery Center, including without limitation those positions (e.g., nurses and staff personnel) designated on Exhibit C hereto (the "Personnel"). Owner approves the use of the Personnel in the positions designated on Exhibit C, at the salaries and compensation set forth in Exhibit C. as well as such additions to benefits and raises as are approved in the ordinary course of business by Manager for such employees. Such Personnel shall be employees of the Manager and assigned to the Surgery Center. At Owner's request, Manager shall provide Owner with a roster of the Personnel who will be providing services at the Surgery Center, including the names of and positions held by such Personnel. The Personnel roster will be updated as appropriate, but no less frequently than quarterly. As set forth in Exhibit B, all compensation and benefits to such employees, including, but not limited to, salary, health insurance, payroll taxes and other benefits and withholding requirements required as a result thereof shall be expenses of the Surgery Center and shall be billed to Owner on a monthly basis without premium, mark-up or surcharge. Such costs for the Personnel shall be accounted for in the Budget, which the Owner shall approve. Upon Owner's request, Manager shall, at Manager's option, suspend or terminate any employee working at the Surgery Center or reassign such employee to another function unrelated to the Surgery Center. Owner shall make such a request only for good cause and in a manner consistent with Section 5.2.3.

5.2. Supervision of Personnel.
Manager shall have the right to exercise direction and control over the Personnel in the performance of their services at the Surgery Center, including the right to reassign all Personnel or terminate such Personnel from the performance of services at the Surgery Center; provided, however, Owner shall have the right to express its concerns and suggestions regarding the Personnel's performance of services at the Surgery Center. All Personnel shall be acceptable to Owner in its reasonable discretion and Manager shall not provide individuals to Owner hereunder who are not reasonably acceptable to Owner. Manager shall establish the work schedule for the Personnel and an established schedule for holidays, vacations and sick leave policies for the Personnel. Manager shall maintain, and provide to Owner, on a periodic basis consistent with such Personnel's pay period, written records of hours worked by all salaried and hourly Personnel, including regular and overtime hours.

5.2.1. *Payroll Taxes.*
Manager acknowledges that it is responsible for payment of all payroll taxes for the Personnel and agrees to furnish proof of such payments to Owner upon written request.

5.2.2. Employee Review.
Manager shall periodically, but not less than annually, review and evaluate the performance of all Personnel.

5.2.3. Conduct of the Owner.
Owner and Manager covenant and agree to obey all federal, state and local statutes regarding treatment of employees in a business situation, and neither shall ever conduct itself in any manner which would make the other party liable for, or subject to, any racial or sexual discrimination charges, wage and hour violations or any other civil or criminal wrong. The Personnel are, and shall always be regarded and treated as, the employees of Manager.

6. Retention of Authority.

6.1. Authority Over Professional Matters.
Owner shall retain the ultimate authority over the overall policy, operation and assets of the Surgery Center, including, but not limited to, the sole authority over all medical, professional and ethical aspects of operation of the Surgery Center, and is responsible for the governance of the Surgery Center. By entering into this Agreement, Owner does not delegate to Manager any of the Owner's duties and responsibilities vested exclusively in Owner by law and Manager shall not undertake any activities which require licenses not available to a business corporation. The Manager expressly does not, by this Agreement or otherwise, undertake to perform or provide any medical services to patients. All matters requiring or involving medical judgments or medical issues shall be the responsibility of the professional medical practitioners who are permitted to perform medical procedures at the Surgery Center. The Manager shall not be responsible in any manner for the acts, omissions or conduct of any health care providers or practitioners performing services at the Surgery Center.

6.2. Licenses.
It is understood and agreed by the parties that Owner will be the owner and holder of all licenses, accreditations, certificates and contracts which the Manager obtains on behalf of Owner and which are a part of and incident to the operation of the Surgery Center.

7. Standards

7.1. Standards of Performance.
In performing its duties and obligations under this Agreement, Manager shall provide the services required hereunder in accordance with generally accepted management, administrative and accounting practices, and in a manner reasonably consistent with Owner's approved business plans and shall use commercially reasonable efforts to provide such services within the limits of Owner's approved capital and operating budgets (the "Budget") except as otherwise provided herein.

7.2. Government Regulations.
Manager shall, for and on behalf of Owner, use commercially reasonable efforts to assure that the Surgery Center complies in all material respects with any statute, ordinance, law, rule, regulation or order of any governmental or regulatory body having jurisdiction respecting the Surgery Center.

8. Compensation

8.1. Management Fee and Personnel Reimbursement.
As compensation under this Agreement, Owner shall pay to Manager an annual management fee as set forth in Exhibit B attached hereto. Owner shall reimburse Manager for the costs and benefits associated with the Personnel as set forth in Exhibit C. Owner and Manager agree and acknowledge that such Management Fee, as provided above in this Section 8.1, represents the fair market value of the services anticipated to be provided by Manager hereunder.

8.2. Expenses.
In addition to the above fees, Manager shall be reimbursed on a monthly basis for its direct out-of-pocket expenses incurred in connection with the management of the Surgery Center, including reasonable legal fees and accounting fees incurred by Manager and those costs described in paragraph

A of Exhibit B, on behalf of Owner with Owner's prior written approval. Notwithstanding the foregoing, the expense incurred by Manager to provide the services Manager is required to provide hereunder shall not be reimbursed by Owner. The Owner shall reimburse Manager from the Operating Account for all such expenses within thirty (30) days after production of such receipts and invoices as Owner shall reasonably request.

9. Financial Resources.

Owner shall be responsible for, and shall provide, all necessary financial resources to pay for all expenses of the Surgery Center, including, but not limited to, leasehold improvements, furniture, fixtures, equipment supplies, payroll expenses, payroll taxes, insurance, information systems, the Management Fee, the Personnel Reimbursement and all other expenses associated with the development and operation of the Surgery Center. No member, director, officer, manager, agent or affiliate shall be personally liable for any of the obligations of Owner except for any obligation guaranteed by such member(s).

10. Expenses of Owner and Manager.

10.1. Expenses of Owner.

10.1.1. Budgeted Expenses.

Manager shall, subject to the limitations set forth in this Agreement, in the name of Owner, contract for all services and supplies, necessary to develop and operate the Surgery Center. Such expenses shall be for the account of Owner, shall be a liability of the Owner and the Surgery Center and payable by Manager out of the Operating Account. In the event such expenses are incurred by Manager on behalf of Owner with Owner's written approval, Owner shall reimburse Manager for all such expenses within ten (10) days of receipt from Manager of a statement of expenses and such support for such expenses as Owner shall reasonably request. Such statements may be presented weekly, monthly or quarterly, at the option of the Manager.

10.1.2. Unbudgeted Expenditures.

10.1.2.1. Operating Expense.

Manager shall advise Owner from time to time of changes in the operations of the Surgery Center that may cause a significant variation from the Budget. Manager shall have the authority to obtain any services, supplies or non-capital equipment which are otherwise provided for in the Budget, but due to increased costs or higher patient utilization are otherwise higher than proposed in the Budget, provided that such increases over the Budget do not exceed seventy five thousand dollars ($75,000) per item or in the annual aggregate. Such services, supplies or non-capital expenditures shall be paid directly out of the Operating Account. Operating expenses which were not provided in the Budget and which exceed seventy five thousand dollars ($75,000) per item or in the annual aggregate, shall require Owner's prior approval before expenditure.

10.1.2.2. Capital Expenditures.

Manager shall not incur any capital expenditures which are not provided for in the Budget without Owner's prior written consent. Manager shall have the authority to purchase capital items provided in the Budget if the cost thereof is in excess of the Budget amount but only if the increase is a result of the actual cost of such item, so long as such increase does not exceed seventy five thousand dollars ($75,000) per item or in the annual aggregate. Any increase in cost in excess of seventy five thousand dollars ($75,000) shall require the Owner's prior written approval.

10.1.3. Insurance of Owner.

Owner shall maintain general and professional liability insurance and such other kinds of insurance on the Surgery Center and its operations in such reasonable amounts, with such companies and on such terms and conditions as are set forth in Section 2.6 (including the naming of Owner and Manager as insureds as their interests appear). Owner shall be responsible for the payment of the premiums of all insurance required in this Section 10.1.3.

10.2. Insurance of Manager.
Manager shall secure and maintain worker's compensation insurance with minimum statutory limits. Manager shall also secure and maintain general errors and omissions insurance and professional liability insurance covering the services it provides hereunder, on either an "occurrence" or a "claims made" basis, in each case, with limits of not less than $1,000,000 per claim and $3,000,000 in the aggregate for the policy year. In the event such policies are on a "claims made" basis, Manager will continue to provide coverage under such policies with limits not less than $1,000,000 per claim and $3,000,000 in the aggregate, in each case, which will provide coverage for any claims that occurred during the term of this Agreement until such time as such claims are barred by the applicable statute of limitations. Manager shall, within five days after the execution of this Agreement, and continually thereafter upon reasonable request, furnish appropriate evidence to Owner of the existence and terms of such insurance, and any of any material changes in such insurance coverage. Manager agrees to add Owner as a named insured under such policies and such evidence of insurance will reflect same.

11. Proprietary Methods.
It is expressly understood that all of the systems, methods, procedures, written materials and controls employed by Manager in the performance of this Agreement ("Proprietary Information") are proprietary in nature and shall remain the property of Manager. The Proprietary Information shall not at any time be utilized, distributed, copied or otherwise acquired or used by Owner, except to the extent such Proprietary Information is in the public domain. The Owner agrees that the remedy at law for any breach of covenants contained in this Section may be inadequate and would be difficult to ascertain and therefore upon an event of a breach or threatened breach of such covenants, Manager, in addition to any other remedies, shall have the right to enjoin the Owner from any threatened or actual activity in violation hereof. The Owner hereby consents and agrees that a temporary or permanent injunction may be granted in any proceeding without the necessity of providing actual damages or posting a bond.

12. Ownership of Records and Access to Records.

12.1. Ownership of Records.
All business and medical records relating to the operation of the Surgery Center, including but not limited to, all books of account, enrollment records, general administrative records and patient records, shall be and remain the sole property of Owner and shall be confidential information thereof. Manager shall not divulge, furnish or make accessible to anyone, without Owner's prior written approval, any such confidential information other than as may be necessary to bill and collect from third party reimbursement payors for services rendered by the Surgery Center, or as otherwise may be required by law.

12.2. Remedies.
Manager agrees that the remedy at law for any breach of the provisions of this Section 12 may be inadequate and would be difficult to ascertain. In addition to any other remedies Owner may have the right to enjoin Manager from any threatened or actual activity in violation thereof, without the necessity of proving actual damages or posting a bond.

13. Term of Agreement; Termination.

13.1. Term.
Subject to the provisions of this Section 13, this Agreement shall become effective as of __________ and shall remain in full force and effect until 12:00 p.m. midnight on ______________, or until this Agreement is earlier terminated as permitted herein (the "Term").

13.2. Termination Without Cause.
Either party may terminate this Agreement without cause on three hundred sixty-five (365) days written notice.

13.3. Termination by Manager for Cause.

Manager may terminate this Agreement upon thirty (30) days written notice (or 10 days as described in Sections 13.3.1 and 13.3.2) for "Cause" if Cause is not cured within the notice period. Cause shall be defined as the occurrence of any of the following events:

13.3.1. *Financial Support*
Failure to provide adequate and necessary financial resources to pay all expenses set forth in the Budget which is not cured within ten (10) days of written notice by Manager of such failure;

13.3.2. *Manager's Fees and Expenses*
Failure to pay or provide the Management Fee and/or the Personnel Reimbursement within ten (10) days of notice by Manager of Owner's failure to pay such fee when due (i.e., make funds available in the Operating Account to pay such amounts);

13.3.3. *Budget Approval*
failure of Owner to approve a Budget that Manager believes, in good faith, contains an appropriate level of resources to maintain a surgery center that can meet applicable licensing and accreditation requirements and operate in a manner consistent with its current standards for patient service;

13.3.4. *Medical Director*
Failure to provide the services of a medical director as may be required by state or federal laws;

13.3.5. *Receivership; Insolvency; Bankruptcy*

13.3.5.1. A general assignment by Owner for the benefit of creditors; or Owner seeking or consenting to, or acquiescence in the appointment of any trustee, receiver or liquidator of it, or any material part of its property;

13.3.5.2. The filing by Owner of any petition to answer in any proceeding seeking for itself or consenting to, or acquiescing in, any insolvency, receivership, bankruptcy, composition, readjustment, liquidation, dissolution, or similar relief under any present or future statute, law or regulation, or the filing by it of an answer or other pleading admitting or failing to deny or to contest, the material allegations of the petition filed against it in any such proceedings; or

13.3.5.3. the commencement against Owner of an involuntary case under the Bankruptcy Code, or a proceeding under any receivership, imposition, readjustment, liquidation, insolvency, dissolution, or like law or statute, which case or proceeding is not dismissed or vacated within ninety (90) days.

13.4. Termination by Owner for Cause.
Owner may terminate this Agreement upon thirty (30) days written notice for "Cause," if Cause is not cured within the notice period. Cause shall be defined as the occurrence of any of the following events:

13.4.1. *Licensure*
Any action or omission by Manager, in its capacity as such, which proximately causes the Surgery Center to lose its required licenses or certification under Medicare or any state law;

13.4.2. *Accounts Payable*
Manager's unreasonable failure to pay in ordinary course of business, out of funds available in the Operating Account, all bills and invoices for services and supplies provided to the Surgery Center (not otherwise caused by the lack of financial resources of Owner);

13.4.3. *Theft*
Manager's theft, dishonesty or intentional misappropriation of Owner's funds, in connection with its services hereunder;

13.4.4. Receivership; Insolvency; Bankruptcy

13.4.4.1. A general assignment by Manager for the benefit of creditors; or Manager seeking or consenting to, or acquiescence in the appointment of any trustee, receiver or liquidator of it, or any material part of its property;

13.4.4.2. The filing by Manager of any petition to answer in any proceeding seeking for itself or consenting to, or acquiescing in, any insolvency, receivership, bankruptcy, composition, readjustment, liquidation, dissolution, or similar relief under any present or future statute, law or regulation, or the filing by it of an answer or other pleading admitting or failing to deny or to contest, the material allegations of the petition filed against it in any such proceedings; or

13.4.4.3. The commencement against Manager of an involuntary case under the Bankruptcy Code, or a proceeding under any receivership, imposition, readjustment, liquidation, insolvency, dissolution, or like law or statute, which case or proceeding is not dismissed or vacated within ninety (90) days.

13.5. Termination for Breach or Default.
Other than for "Cause" which is covered by Sections 13.2 and 13.4 herein, a non-defaulting party shall have the right to terminate this Agreement by written notice thereof to the other party if the other party shall be in material breach of, or default under, a material provision of this Agreement and shall have failed to cure the same within a period of thirty (30) days following the giving of written notice of any such breach or default by the non defaulting party; such right to terminate this Agreement shall be in addition to any other remedy available to the non defaulting party, in Jaw or in equity, on account of any such breach or default

13.6. Nonsolicitation.
If this Agreement is terminated for any reason, whether for Cause, without Cause, by non-renewal, expiration or otherwise, Owner shall have the right to employ or re-employ, as the case may be, some or all of the Personnel then assigned to the Surgery Center, and Manager will not impede or hinder Owner's efforts to employ such persons.

14. Indemnification

14.1. Manager's Indemnification.
Manager hereby agrees to indemnify and hold harmless Owner, its officers, governors, employees and agents (collectively, an "Owner Indemnified Party") from and against any and all damages, liabilities, actions, suits, proceedings, claims, demands, losses, costs and expenses (including reasonable attorneys' fees) (collectively a "Loss") which may be asserted against any of the Owner Indemnified Parties by a third party, as a result of Manager's breach of this Agreement, including the representations and warranties made herein, or as a result of the gross negligence or willful misconduct of Manager or Manager's employees and agents under this Agreement, if such Loss has not been caused by the negligence or willful misconduct of an Owner Indemnified Party. This Section 14.1 shall constitute the sole obligation of Manager with respect to any such Loss arising out of this Agreement, the services provided by Manager and/or the relationship created hereby, whether such claim is based in contract, tort, fraud or otherwise.

14.2. Owner's Indemnification.
Owner hereby agrees to indemnify and hold harmless Manager, its officers, directors, employees and agents (collectively, a "Manager Indemnified Party") from and against any and all Loss which may be asserted against any of the Manager Indemnified Parties by a third party, as a result of the Owner's breach of this Agreement, including the representations and warranties made herein, or the gross negligence, willful misconduct of Owner or Owner's employees and agents under this Agreement, if such Loss has not been caused by the negligence or willful misconduct of a Manager Indemnified Party. This Section 14.2 shall constitute the sole obligation of Owner with respect to any such Loss arising out of this Agreement, the services or performance of Owner and/or the relationship created hereby, whether such claim is based in contract, tort, fraud or otherwise.

14.3. Exclusive Remedy.

The parties acknowledge and agree that the foregoing indemnification provisions in this Section 14 shall be their exclusive remedy with respect to any such Loss arising out of this Agreement, the services performed hereunder and/or the relationship created hereby, whether such claim is based in contract, tort, fraud or otherwise.

15. Assignment by Manager.
Except as permitted herein, neither Manager nor Owner may assign their rights or delegate or subcontract any of their obligations called for under this Agreement to any third persons, entities, or corporations without the prior written consent of the other, unless such assignment, delegation, or subcontract is to an affiliate or in connection with a sale of all or substantially all of the assets or stock of Manager or Owner. Any assignee who succeeds to the interest of Manager hereunder in connection therewith shall be deemed to be "Manager" hereunder, and any assignee who succeeds to the interest of Owner hereunder in connection therewith shall be deemed to be "Owner" hereunder for all purposes.

16. Independent Relationship.
Notwithstanding any other provision of this Agreement, in the performance of the obligations of this Agreement, each party is at all times acting and performing as an independent contractor with respect to the other party, and no party shall have or exercise any control or direction over the method by which the other party shall perform such work or render or perform such services and functions. It is further expressly agreed that no work, act, commission or omission of any party (or any of its agents, servants or employees) pursuant to the terms and conditions of this Agreement, shall be construed to make or render such party (or any of its agents, servants or employees) an agent, servant, representative, or employee of, or joint venturer with, such other party.

17. Access to Books and Records.
In accordance with§ 1861(v)(l)(i) of the Social Security Act, as amended, and the provisions of 42 C.F.R. § 420.300, et seq., Manager will maintain, and allow the Comptroller General of the United States, the Department of Health and Human Services, and their duly authorized representatives access to, Manager's contracts, books, documents and records until the expiration of four (4) years after the services are furnished under this Management Agreement, and Manager will also allow such access to contracts between it and related organizations and related books, documents and records. To the extent that Manager subcontracts any of its duties hereunder where the value or cost of the Surgery Center component is $10,000 or more within a twelve (12) month period, Manager will require a similar access clause in its written subcontracts.

18. Change of Circumstances.
In the event any federal, state or local. legislative or regulatory authority adopts any law, rule, regulation, policy, procedure or interpretation thereof which, in the reasonable determination of either Manager or Owner, based on the advice of legal counsel (which legal counsel is reasonably acceptable to both parties and which advice shall be in writing and furnished to the other Party) that there is a reasonable basis for concluding that a material change in the manner of either party's operations or obligations under this Agreement may be required to prevent either party from being in violation of law, then, upon the request of the party materially affected by such change in circumstances, the parties shall enter into good faith negotiations for the purpose of establishing such amendments or modifications to this Agreement, and any other agreement to which the parties hereto may be a party, as may be appropriate in order to accommodate the new requirement and change of circumstances while preserving the original intent of this Agreement to the greatest extent possible. In the event that within ninety (90) days following the date notice is first given by one party hereunder to the other that a material change in the manner of either party's operations under this Agreement is required, the parties have not agreed to amend or modify this Agreement, this Agreement may be terminated by a party without incurring any liability as a result thereof, thirty (30) days after such party's delivery of a written opinion from legal counsel, which legal counsel shall be reasonably acceptable to the recipient of the opinion, that it is more likely than not that a party will be in violation of the law if this Agreement continues in force. Any legal advice or legal opinion (whether oral or written) furnished to the Parties pursuant to this Section 19 shall be treated as confidential information and shall not be disseminated to any third party (other than such Party's own separate legal counsel), without the prior written consent of the Parties, except as otherwise required by applicable law.

19. Governing Law.

This Agreement shall be deemed to have been made and shall be construed and interpreted in accordance with the laws of the State of Tennessee without regard to that state's conflict of laws provisions.

20. Amendment and Modification.
This Agreement cannot be changed or modified except pursuant to written agreement signed by both parties.

21. Severabilitv.
Shoul d any provision of this Agreement for any reason be declared invalid, said declaration shall not effect or void any remaining portion and any remaining portion shall remain in full force and effect as if this Agreement had been executed with the invalid portion thereof eliminated.

22. Counteroarts.
This Agreement may be executed in any number of counterparts each of which shall be an original and all of such counterparts shall all together constitute but one and the same agreement.

23. Confidentialitv.
Each party hereto covenants and agrees that it shall not disclose the terms of this Agreement or any agreement supplementing this Agreement to third parties, except as and to the extent disclosure is required by law, or required for the performance of its obligations hereunder or under related agreements, or as necessary or appropriate in dealing with the accountants, attorneys and other representatives of the respective parties.

24. Binding on Successors and Assigns.
The terms, covenants, conditions, provisions and agreements herein contained shall be binding upon and inure to the benefit of the parties hereto, their successors and assigns as permitted by this Agreement.

25. Entire Agreement.
This Agreement constitutes the entire understanding of the parties hereto with respect to the matters addressed in this Agreement, and all prior arrangements, understandings, negotiations and representations have been superseded by the terms of this Agreement and are void.

26. Further Documents.
The parties do hereby covenant and agree that they and their successors and assigns will execute any and all instruments, releases, assignments and consents which may reasonably be required of them in order to carry out the provisions of this Agreement. Notwithstanding expiration or termination of this Agreement, each party hereto shall take such further actions as are necessary to fulfill its existing obligations, which by their terms require performance after expiration or termination of this Agreement.

27. Waiver.
The waiver of either party of a breach of violation of any provision of this Agreement shall not operate or be construed to be a waiver of any subsequent breach thereof.

28. No Third Party Beneficiary.
None of the provisions contained in this Agreement are intended by the parties, nor shall they be deemed, to confer any benefit on any person or entity not a party to this Agreement.

29. Headings.
The captions and headings throughout this Agreement are for convenience and reference only, and shall in no way be held or deemed to define, limit, describe, explain, modify, amplify or add to the interpretation, construction or meaning of any provision of or to the scope or intent of this Agreement nor in any way affect the Agreement.

30. Construction.
Common nouns and pronouns and all other terms shall be deemed to refer to the masculine, feminine, neuter, singular and/or plural, as the identity of the person or persons, entity or association may require in context. The parties have participated jointly in the negotiation and drafting of this Agreement. In the event of an ambiguity

or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of authorship of the provisions of this Agreement.

31. Remedies Cumulative.
Except as provided in Section 14, all rights and remedies of the parties enumerated herein are cumulative and shall not preclude any other right or remedy allowable by law.

32. Notices.
Any notices required to be given pursuant to the terms and provisions hereof shall be sent by certified mail, return receipt requested, postage prepaid, to:

Manager: HMG Medical Management, LLC
2323 N. John B. Dennis
Kingsport, TN 37660
Attn: President / CEO

Owner: Meadowview ASC, LLC
2033 Meadowview Lane, Suite #____
Kingsport, TN 37660

or at such other address as either party shall designate by like notice to the other party. Any notice given in the manner specified herein shall be deemed delivered on the third business day following mailing.

33. Attorneys' Fees.
In the event of a claim or controversy between the parties for any matter arising out of this Agreement, the prevailing party in such claim or controversy will be entitled to recovery against the other party of reasonable attorneys' fees and court costs at all levels.

34. Referral of Patients.
The parties agree that no part of this Agreement shall be construed to induce or encourage the referral of patients or the purchase of health care services or supplies. The parties acknowledge that there is no requirement under this Agreement or any other agreement between Manager or any affiliate thereof and Owner or any affiliate thereof that any party refer any patients to any health care provider or purchase any health care goods or services from any source. Additionally, no payment under this Agreement is in return for the referral of patients, if any, or in return for purchasing, leasing or ordering services from Manager or any of its affiliates. The parties may refer patients to any company or person providing services and will make such referrals, if any, consistent with professional medical judgment and the needs and wishes of the relevant patients.

35. Resolution of Disputes.

35.1. Escalation Procedures.
In the event the parties raise any dispute, claim or disagreement arising out of their rights and responsibilities as covered by this Agreement ("Dispute"), the parties shall first diligently pursue resolution without recourse to any third party forum for the hearing of any grievances. This process shall include appropriate escalation of such Dispute through appropriate management channels of each party. Escalation shall commence upon a party serving a written Dispute notice ("Dispute Notice") to the other party. The parties, in recognition of their mutual interests in resolving Disputes for the purposes of fulfilling the terms and conditions of this Agreement, hereby agree to negotiate in good faith to reach a just and equitable solution acceptable to both for a period of thirty (30) days after the date the Dispute Notice is sent to the other party.

35.2. Mediation.
Except as otherwise expressly provided in this Agreement, including the Escalation Procedures as outlined in Section 35.1, any Dispute will be first submitted to mediation in Kingsport, Tennessee, (the exact location to be determined by the parties) in accordance with the applicable rules of the American Health Lawyer's Association, the costs of which will be shared equally by the parties to the mediation.

35.3. Litigation.

After the results of mediation are known, if any involved party is still aggrieved, the aggrieved party may bring an action in the state courts located in Kingsport, Tennessee, or the U.S. District Court for the Eastern District of Tennessee at Greeneville.

36. Survival.

Except for Sections 15, 16, 16 and 18, the provisions of Sections 12 - 35 shall survive any termination or expiration of this Agreement.

IN WITNESS WHEREOF, the undersigned parties have executed this Agreement as of the date first above written.

Meadowview ASC, LLC

By: ______________________________

Name: ______________________________

Title: ______________________________

Date: ______________________________

HMG Medical Management, LLC

By: ______________________________

Name: ______________________________

Title: ______________________________

Date: ______________________________

MSA_End

EXHIBIT B

A. Management Fee. As compensation for the services provided by Manager under this Agreement, including without limitation the Billing Services, Owner agrees to par, the annual fee set forth below, payable in equal monthly installments on or before the 5^{th} day following the end of the month in which services are provided, for the Term of the Agreement (the "Management Fee"). For the first year of the Term, the Management Fee shall be **[five percent (5%) or projected gross income]** and no/100 Dollars ($____________).

Ninety (90) days before the end of the first year (a Re-Appraisal Year), the Management Fee ***shall*** be appraised. Thereafter, beginning with the third year of the Term and then every two years thereafter (each, a Re-Appraisal Year), either party ***may***, by written notice to the other party at least 90 days prior to the end of the applicable year during the Term, request that the Management Fee for the remaining years of the Term be re-appraised at fair market value. For purposes of this Agreement, "fair market value" shall be computed consistent with applicable legal parameters, including without limitation the Internal Revenue Code and applicable federal health care regulatory standards.

During a Re-Appraisal Year, upon receipt of such written notice by either party, the parties shall promptly, but in any event within 15 days, jointly engage, and equally share the cost of, an independent, qualified, third party appraiser to set the Management Fee for each of the remaining years of the Term at a fixed amount set in advance, and determined to be fair market value by such appraiser; provided, however, if the re-appraised Management Fee for the remaining years of the Term in the aggregate does not vary by more than 10% of the original Management Fee for the same period, then the party requesting the re-appraisal shall pay the full cost of the re-appraisal by reimbursing one-half of the costs and expenses of such appraiser to the other party. The parties agree that the same or substantially similar factors that were used in initially determining the Management Fee amount will be used in determining subsequent Management Fee amounts for any remaining years of the Term. Both parties shall reasonably cooperate in providing information and assistance to the appraiser so that the appraiser may provide his or her opinion on or before 30 days prior to the beginning of the next contract year of the Term. For each succeeding year of the Term after a re-appraisal year, the Management Fee shall continue to be the re-appraised Management Fee, unless written notice is again given at least 90 days prior to the beginning of the succeeding year of the Term, in which case the same process described in this Section A shall be followed.

The costs described in this Agreement as being at Owner's expense, including but not limited to Sections 2.2.1, 2.2.3.4, 2.2.5, 2.2.6, 2.2.7, 2.2.8, 2.2.10, 2.4, 2.6, 2.8, 2.9, 4.3 iv), vi) & viii), 4.5.3 and 10.1.3, shall be in addition to Management Fee and shall be paid in accordance with Section 8.2.

B Reimbursement of Direct Employee Costs. Owner shall reimburse Manager for (i) salaries and wages of the Personnel for hours worked at the Surgery Center, and for any substitute Personnel, (ii) bonuses of such Personnel and substitute Personnel (to the extent of services allocable to the Surgery Center by applying a ratio equal to hours worked at the Surgery Center divided by total hours worked), (iii) salaries and wages paid to any Personnel for paid time off taken in accordance with the policies of the Manager ("PTO"), to the extent such PTO is payable out of PTO accrued on Manager's books, and (iv) all payroll taxes, FICA, FUTA, and other state and local employment taxes incurred by Manager with respect to the Personnel, to the extent accruing as a result of items (i), (ii) or (iii) (collectively, the "Salary Costs"). While Manager may, in its reasonable discretion, change or increase the salaries and wages of any of the Personnel, Manager shall consult with, and receive input from, Owner from time to time during the Term, regarding the salaries, wages, bonuses, and benefits of the Personnel. Manager will provide benefits to the Personnel comparable to those Manager provides to its other employees with comparable positions, seniority and compensation, such as health insurance, disability insurance, life insurance, retirement plans, pre-approved seminar and related travel expenses and appropriate professional dues (collectively, the "Benefits"). Owner shall reimburse Manager for the Salary Costs and Benefits on a dollar-for-dollar basis without any premium, mark-up or surcharge (the "Personnel Reimbursement"). The Personnel Reimbursement shall be paid on a monthly basis by Owner out of the Operating Account following and in accordance with invoices submitted by Manager reflecting its computation of the Personnel Reimbursement. Such invoices shall include supporting detail information as may be reasonably necessary for Owner to verify the calculation of the amounts due. In addition, Owner shall have the

right to audit Manager's internal business records from time to time to verify such invoices and the components comprising the amounts paid or payable by Owner under this Agreement.
ExB_End

EXHIBIT C

Job Code	Job Title	Salary	Estimated Benefits & Taxes
[redacted]			
DIRASC	Director ASC (CURRENTLY OPEN)		
ASCMAT	ASC Materials Coordinator		
CREDCOOR	Credentialing Coordinator		
[redacted]			
ASCINS	ASC Insurance Coordinator		
ASCREIM	ASC Reimbursement Coor		
CNTSTERL	Central Sterile Tech		
CIRCHNRS	Circulating Charge Nurse		
CIRNURS	Circulating Nurse		
CIRNURS	Circulating Nurse		
CIRNURS	Circulating Nurse		
CIRNURS	Circulating Nurse		
CIRNURS	Circulating Nurse		
ENDOTECH	Endoscopy Technician		
FRNTOFII	Front Office II		
NURSMASC	Nurse Manager/ASC		
OFMGRII	Office Manager II		
OFNURS	Office Nurse		
PACURN	PACU Nurse		
PACURN	PACU Nurse		
PACURN	PACU Nurse		
PREOPRN	Pre Operative Nurse		
PREOPRN	Pre Operative Nurse		
PREOPRN	Pre Operative Nurse		
PREOPRN	Pre Operative Nurse		
SCHDCOOR	Scheduling Coordinator		
SURTECI	Surgical Tech I		
SURTECII	Surgical Tech II		
SURTECII	Surgical Tech II		
SURTECII	Surgical Tech II		
SURTECII	Surgical Tech II		
SURTECII	Surgical Tech II		
SURTECII	Surgical Tech II		

REAL ESTATE SUB-LEASE COVER SHEET

THE FOLLOWING DEFINED TERMS ARE USED IN THIS LEASE

Lessor:	Holston Medical Group, P.C.
Sub-Lessee:	Meadowview ASC, LLC
Building Name:	Meadowview Lane Professional Center
Property Address:	2033 Meadowview Ln. Kingsport, TN 37660
Suites/Premises:	210
Rentable Square Feet:	10,595
Usable Square Feet:	9,338
Security Deposit:	____________________
Commencement Date:	Upon issuance of a certificate of occupancy
Term:	10 Years
Ending Date:	TBA

Initial Term

Rate Per Square Foot:	$30.00 (subject to final fair market value opinion)
Monthly Rent :	TBA
Rental Rate Escalator:	Two and one-half percent (2.5%)
Additional Rent:	$12.11

Renewal Options:

Number of Renewal Terms: 1

Length of each Renewal Term: 5 years

each, an Extension

But in no event, no longer than the termination date of the Prime Lease

Days' Written Notice Prior to end of the then Current Term: 180

Notice of Intent Not To Renew:

Prior Days' Written Notice: 180

Authorized Use: Ambulatory Surgery Center

Contact Name: ____________________

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SUB-LEASE
Between
HOLSTON MEDICAL GROUP, P.C.
And
MEADOWVIEW ASC, LLC

This Sub-Lease is entered effective as of the 24th day of May, 2018 ("Effective Date") by and between **Holston Medical Group, P.C.** ("Lessor") and **Meadowview ASC, LLC** ("Sub-Lessee") with reference to the following:

WITNESSETH

WHEREAS, Lessor currently leases the Property from Physician's Realty Trust ("Landlord") under that certain lease dated the 7th day of October, 2003, as amended by that certain Amendment to Lease dated the 1st day of May, 2007 (First Amendment), as assigned to Ziegler – Tennessee 14, LLC, by that certain Assignment of Leases dated the 10th day of May, 2007, as amended by that certain Second Amendment to Lease Agreement dated the 23rd day of August, 2010 (Second Amendment), and as further amended and merged by that certain Third Amendment o Lease Agreement dated the ___ day of May, 2018, between Holston Medical Group, P.C. and Physicians Realty Trust (collectively, the "Prime Lease"); and

WHEREAS, Sub-Lessee desires to lease the Premises from Lessor;

THEREFORE, in consideration of the foregoing and other good and valuable consideration, the parties agree as follows:

I. Definitions

Definitions include those as defined on the Cover Sheet.

A. Additional Rent
Additional Rent shall mean all payments made by Sub-Lessee pursuant to Section II.H.

B. Building
Building shall mean the improvements located on the Property.

C. Common Areas
Common Areas shall mean any appurtenant parking areas, truck ways, loading areas, pedestrian walkways and ramps, landscaped areas, stairways, corridors, and other areas and improvements provided by Lessor for the general use of lessees for its respective intended purposes in common with other persons.

D. Landlord
Landlord shall mean Physicians Realty Trust, the fee simple owner of the Property.

E. Monthly Rent.
Where Sub-Lessee Occupies the Premises for all the days in a month, Monthly Rent shall mean the Rate Per Square Foot set forth on the Cover Page times Rentable Square Feet the product of which is then divided by twelve. Where Sub-Lessee Occupies the Premises for less than all the days in a month, Monthly Rent shall mean the Rate Per Square Foot times Rentable Square Feet the product of which is divided by twelve, the quotient of which is then pro-rated for the number of days in the month for which the Sub-Lessee Occupies the Premises. Rent is subject to the Rental Rate Escalator as set forth on the Cover Page.

F. Occupy.
Occupy shall mean the complete control over the Premises by Sub-Lessee.

G. Operating Expenses.

Operating Expenses shall those expenses incurred by Landlord to provide the operation and maintenance of the Property, Building and Premises. Operating Expenses include, but are not limited to, the following:

i. any supplies and materials that may be used in the operation and maintenance of the Property;

ii. Cost of replacement of equipment and all maintenance and service agreements on equipment located in or used in connection with the Property or Building (except equipment that is the sole responsibility of Sub-Lessee) including, without limitation, the alarm service;

iii. cost of fire and extended risk and general liability insurance for the Property and Building, including fire insurance and/or other endorsements from time to time, deemed appropriate by Landlord insuring the Property and Building;

iv. Rent Loss insurance in an amount equal to the Monthly Rent and Additional Rent based on 100% of the net rentable area of the Building for a period of at least 12 months commencing with the date of loss, plus real estate taxes, special assessments, utility charges and all insurance premium charges;

v. cost of maintenance and repairs of the parking lot and exterior grounds located within the Property, replacement and repair of glass, glazing and entry doors and all costs of repairs in and to the common areas of the Building;

vi. janitorial services, including trash pickup, vacuuming, floor cleaning and general floor cleanup of the interior of the Building;

vii. maintenance and repair of all component parts of the plumbing, lighting, electrical, heating and air conditioning systems serving the Building and Premises;

viii. utility charges including electricity, water, sewer, natural gas and rubbish pickup for the Building;

ix. all taxes and assessment and governmental charges made by federal, state, county or municipal taxing authorities and whether they be taxing authrotities presently taxing the Property and the Building or by other subsequently crated or otherwise, including license, permit and inspeaction fees and any other taxes and assessments attributable to the Property or the Building or its operation and any tax or other levy, however denominated on, or measured by, the rental collected by the Landlord with respect to the Property or the Building or on the Landlord's business of leasing space in the Premises; and

x. security services for the Property and Building.

H. Plans and Specifications.

Plans and Specifications shall mean those drawings or renderings, electrical, plumbing or other utility schematics and all associated specifications as may be necessary to make Sub-Lessee Improvements.

I. Premises.

Premises shall mean the Suite(s) consisting of the Rentable Square Feet and including all Sub-Lessee Improvement and all Sub-Lessee Furniture and Fixtures.

J. Property

Property shall mean the land, driveways, parking areas, sidewalks, landscaped areas and the Building located at the Property Address as set forth on the Cover Page.

K. Rent

Rent shall mean both Monthly Rent and Additional Rent.

L. Sub-Lessee Furniture and Fixtures.
Sub-Lessee Furniture and Fixtures shall mean furniture, office equipment, racks, counters, shelves and other items purchased by Sub-Lessee for the Authorized Use of the Premises as well as any other movable goods or other personal property belonging to Sub-Lessee.

M. Sub-Lessee Improvements.
Sub-Lessee Improvements shall mean any constructed improvements to the Premises, such as walls, floor coverings, dropped or other ceilings installed below the ceiling of the Building, plumbing, plumbing fixtures, stairs and other similar items constructed within the Premises as may be desired by Sub-Lessee or necessary for the use of the Premises by Sub-Lessee for the Authorized Use. Specifically excluded from the definition of Sub-Lessee Improvements are Sub-Lessee Furniture and Fixtures.

N. Taxes.
Taxes shall mean all real estate taxes assessed against the Property and all personal property taxes assessed against the Property, but not any sales, use, excise, ad valorem, or other tax based on Lessor's income or the value of personal property owned or used by any other lessee on the Property.

II. Rights and Responsibilities of Sub-Lessee

A. Occupancy; Term; Renewal; Intent Not To Renew
In consideration of the payment by Sub-Lessee of the Rent under the Sub-Lease and the performance of the covenants and agreements of this Sub-Lease, Landlord herby lets and demises to Tenant the Premises located in the Building as of the Beginning Date and which shall continue for the Term and end on the Ending Date all as set forth on the Cover Page. Tenant shall have the right and option to renew this Sub-Lease for the Number of Renewal Terms and the for the length of the Renewal Term by notifying Landlord in writing, in advance, all as set forth on the Cover Page. The Initial Term and the Renewal Term are sometimes referred to herein as the "Term". At the end of any Term, Sub-Lessee shall give written notice to Lessor of its Intent Not To Renew as set forth on the Cover Page.

B. Permitted Use
During the Term, Sub-Lessee shall have the exclusive right to Occupy the Premises for the Authorized Use.

C. Rules And Regulations.
Sub-Lessee shall faithfully observe and comply with the rules and regulations applicable to the Building and the Premises, if any, and all modifications thereof and additions thereto from time to time put into effect by Lessor after prior written notice to Sub-Lessee (the "Rules and Regulations"). Lessor shall have no duty to enforce the Rules and Regulations against, nor shall Lessor be responsible for the non-performance of the Rules and Regulations by any other lessee or occupant of the Building. In the event of any conflict between the terms, covenants, agreements and conditions of this Sub-Lease and the terms, covenants, agreements and conditions of the Rules and Regulations, this Sub-Lease shall control.

D. Common Areas
Sub-Lessee shall have a non-exclusive right to use the Common Areas of the Building. Sub-Lessee's use of the Common Areas shall be subject to rules and regulations which Lessor shall impose, from time to time, and shall provide Sub-Lessee with written notice thereof.

E. Non-Permitted Uses
Sub-Lessee shall not commit or permit any waste in or on the Premises or the Common Areas or any nuisance or other act or condition which may disturb the quiet enjoyment of adjoining landowners or other lessees. Sub-Lessee shall not use or allow the Premises or the Common Areas to be used for any improper, immoral or unlawful purpose.

F. Fair Market Value Opinion

Lessor and Sub-Lessee agree to seek a fair market value opinion with regard to the Monthly Rent. Lessor and Sub-Lessee shall agree upon a licensed commercial real estate appraiser. The results of the appraisal shall become the Monthly Rent and the costs of the appraisal shall be borne equally between the parties.

If the parties are unable to agree upon an appraiser, or if a party is dissatisfied with the results of the first appraisal, then each party, or the dissatisfied party, may obtain their own appraisal at their own cost using a licensed commercial real estate appraiser. If the results of the two appraisals differ by ten percent (10%) or less, then the Purchase Price shall be the average of the two appraisals.

If the results of the two appraisals differ by more than ten percent (10%), then the two appraisers shall choose a third licensed commercial real estate appraiser. The Purchase Price shall be the average of all three (3) appraisals. The costs of all three (3) appraisals shall be borne equally between the parties.

G. Payment of Monthly Rent.

Sub-Lessee shall pay Monthly Rent in advance beginning on the Commencement Date at the Lessor's address set forth in Section IV.E. Monthly Rent shall be abated during any period that Lessor fails to fulfill its obligations pursuant to Section III.A and such failure reasonably renders the Premises, Building, or the Property unusable for the Authorized Use.

H. Additional Rent

In addition to Monthly Rent, Sub-Lessee shall pay Additional Rent in advance beginning on the Commencement Date at the Lessor's address set forth in Section IV.E. Additional Rent shall be an estimate of Sub-Lessee's proportionate share of Operating Expenses. Additional Rent shall be abated during any period that Lessor fails to fulfill its obligations pursuant to Sections III.A and such failure reasonably renders the Premises, Building, or the Property unusable for the Authorized Use.

On or before March 31st of each year, Lessor shall provide Sub-Lessee a reconciliation of actual Operating Expenses for the prior year. If Sub-Lessee has overpaid Sub-Lessee's proportionate share of Operating Expenses, Lessor shall refund the difference to Sub-Lessee within thirty (30) days. If Sub-Lessee has underpaid Sub-Lessee's proportionate share of Operating Expenses, Sub-Lessee shall pay the difference to Lessor within thirty (30) days.

Sub-Lessee's Additional Rent for the new year shall be modified to reflect Sub-Lessee's proportionate share of actual Operating Expense for the prior year by diving the prior year Operating Expense by twelve.

I. Late Fees; Interest; Application of Payments.

If any payment to be made by Sub-Lessee to Lessor under this Sub-Lease is not paid within ten (10) days of its due date, Sub-Lessee shall pay to Lessor an additional payment of five percent (5%) of the past due amount ("Late Fees"). Payments not made within thirty (30) days of their due date shall bear interest at the rate of 1 % per month, provided however that interest shall not accrue on Late Fees. Payments shall be credited first toward Late Fees, second toward interest, third to attorneys' fees, and then to any overdue installments of Monthly Rent.

J. Quiet Enjoyment.

During the Term of this Sub-Lease, Sub-Lessee shall peaceably and quietly hold and enjoy the Premises for the Term without hindrance from Lessor, subject only to the terms and conditions of this Sub-Lease as well as any other restrictions of record, applicable laws and restrictions of which Sub-Lessee has actual knowledge.

K. Signs

Sub-Lessee, at Sub-Lessee's sole cost and expense, may install sign(s) on exterior walls and available pylons; provided, however, that Sub-Lessee's signs shall at all times be subject to all applicable governmental requirements and any covenants or restrictions affecting the Property. All signs erected by Sub-Lessee will remain the property of Sub-Lessee, and Sub-Lessee shall maintain such signs in good condition and repair at all times, failing which Lessor shall have the right to so maintain the signs at the sole cost and expense of Sub-Lessee, although nothing herein shall obligate Lessor to maintain such signs.

L. Maintenance of Premises.

Except for the responsibilities of Lessor under Sections III.A, below, Sub-Lessee shall maintain the Premises in a neat and clean condition, including trash removal, and janitorial services serving the Premises as well as the maintenance of Sub-Lessee Improvements and Sub-Lessee Furniture and Fixtures.

M. Sub-Lessee Improvements

1. *Written Consent; Conditions*

Sub-Lessee shall not make any alterations to the Premises without the prior written consent of Landlord and Lessor, provided consent shall not be unreasonably withheld. Any alterations made shall remain on and be surrendered with the Premises on expiration or termination of the Lease, except Lessor can elect within thirty (30) days before or ten (10) days after expiration or termination of this Sub-Lease, to require Sub-Lessee to remove any alterations that Sub-Lessee has made to the Premises. If Lessor elects, Sub-Lessee shall restore the Premises at its cost to the condition which existed at the beginning of the Term, accepted changes and normal wear and tear excepted.

2. *Standards for Permitted Alterations*

Any alterations made by Sub-Lessee shall be performed in a good workmanlike manner in quality and class at least equal to that existing at the time the improvements are made and shall not weaken or impair the structural strength or lessen the value of the Building or the Premises or change the purpose for which the Premises may be used. Any and all plans and construction will have to be done in accordance with the Prime Lease. In addition, Sub-Lessee covenants it will obtain approval from Landlord, Lessor, and all governmental agencies or departments having authority and/or jurisdiction thereof and or any public utility having an interest therein, and all improvements shall be done in accordance with the requirements of local regulations. Sub-Lessee shall not allow any liens for materials furnished and/or labor performed to attach to the Premises or the Building as a result thereof. After ten (10) days prior written notice, Lessor shall have the right, but not the obligation, to cure any default under this paragraph, if Sub-Lessee does not cure the default within the notice period. The costs and expenses of curing the default shall be added to the next installment of Rent and if not so paid, shall be treated as a default in the payment of Rent.

3. *Tenant Improvement Allowance*

Lessor may make available to Sub-Lessor a Tenant Improvement Allowance of up to One Million Two Hundred Fifty Thousand Dollars ($1,250,000.00), based on final Usable Square Feet of the Premises. Any Tenant Improvement Allowance will be incorporated into the Monthly Rent as calculated during the Fair Market Opinion appraisal under Section II.F

N. Insurance.

As of the Commencement Date and continuing until expiration of the Term, Sub-Lessee shall procure, pay for and maintain in effect the insurance coverage as follows:

1. *Commercial General Liability.*

A Commercial General Liability policy in an amount not less than $1,000,000.00 combined single limit for each occurrence naming Lessor and such other parties with an insurable interest in the Premises as additional insureds, as their interests may appear.

2. *Premises Liability Insurance.*
An All-Risk replacement cost property policy to protect Sub-Lessee's Improvements and Sub-Lessee's Furniture and Fixtures from standard perils of loss and including coverage for vandalism, malicious mischief and sprinkler damage.

3. *Worker's Compensation.*
A Workers' Compensation policy for all Sub-Lessee employees with statutory limits. Upon request by Lessor, Sub-Lessee shall provide Lessor with certificates of insurance evidencing the above coverages and conditions.

O. <u>Inspection.</u>
Landlord, Lessor, or its representatives, shall have the right at all reasonable times and upon reasonable notice to Sub-Lessee during a Term of this Sub-Lease to enter the Premises for the purpose of examining or inspecting the same and to assure itself that Sub-Lessee is repairing and maintaining the Premises as provided in this Sub-Lease. Lessor shall use all reasonable effort not to disturb Sub-Lessee's use and occupancy. In the event Sub-Lessee is not performing its covenants of maintenance and repair, Lessor shall have the right, but not the obligation, to perform necessary maintenance and repairs and the cost and expenses thereof shall be added to the next succeeding installment of Rent and if not so paid, shall be treated as a default in the payment of Rent.

P. <u>Assignment and Subletting.</u>
Sub-Lessee shall not assign or encumber this Sub-Lease, nor shall this Sub-Lease be assigned or transferred by operation of law without prior consent in writing of Landlord, Lessor, and Landlord's lender. Provided, upon approval from Landlord's lender, Sub-Lessee may assign its rights and obligations under this Sub-Lease at any time to any entity that controls, is controlled by or is under common control with Sub-Lessee or to any affiliated entity in which Sub-Lessee is a joint venture, partner or member, so long as Sub-Lessee continues to be contractually liable for all its obligations under this Sub-Lease and the entity satisfies the use requirements in Section II.B.

Q. <u>End of Term.</u>

1. *Return of Premises.*
At the end of the Term, Sub-Lessee shall surrender the Property to Lessor broom clean and in substantially the same condition as at the time of Occupancy, reasonable wear and tear, insured damage by fire and other casualties and condemnation or appropriation by eminent domain excepted. Sub-Lessee shall not remove from or assert any rights in or to the Sub-Lessee Improvements. Sub-Lessee shall surrender to Lessor all keys to or for the Building and the Premises and shall inform Lessor of all combinations of locks, safes and vaults, if any, in the Premises.

2. *Removal of Sub-Lessee Furniture and Fixtures.*
Sub-Lessee shall have the right to remove all Sub-Lessee Furniture and Fixtures from the Premises, at its sole cost and expense, at the termination of this Sub-Lease. Sub-Lessee shall be responsible for the reparation of any damages to the Sub-Lessee Improvements caused by such removal if, and only if, the next Sub-Lessee obtained for the Premises elects not to make any Sub-Lessee Improvements under the terms of their Lease.

3. *Removal of Sub-Lessee Signs.*
Sub-Lessee shall remove its signs upon termination of this Sub-Lease. If Sub-Lessee fails to remove any such signs upon termination of this Sublease, then such signs shall become the property of Lessor, and Sub-Lessee shall pay for the cost of removing same.

4. *Holding Over.*

Any holding over by Sub-Lessee of the Premises after expiration of the Term shall operate and be construed as a tenancy at sufferance from month-to-month at the then current Rent (unless Sub-Lessee's holding over prevents another Sub-Lessee, with signed Lease, from occupying the Premises in which case the Rent shall be 150% of the then current Rent) and on the same terms and conditions as contained herein plus any damages suffered by Lessor as a result of such hold over.

R. Subordination And Attornment.

1. *Subordination*
Sub-Lessee hereby subordinates all of its right, title and interest in and under this Sub-Lease to the lien of any deed of trust and the lien resulting from any other method of financing or refinancing and to all replacements, renewals, modifications or extensions thereof that may now or hereafter affect the Premises, Building or Property or against any improvements hereafter placed on the Property. On demand, Sub-Lessee shall execute, acknowledge and deliver to Lessor all instruments that may be necessary or proper to subordinate this Sub-Lease and all rights therein to the lien of any deed of trust and any replacements, renewals, modifications or extensions.

2. *Lessor's Interest; Attornment*
In the event of the Prime Lease is terminated for any reason, Sub-Lessee agrees that it will attorn to the Landlord upon notice by the Landlord and will thereafter make all payments including, without limitation, Rent, directly to the Landlord or other person as designated by the Landlord. Provided, Sub-Lessee's obligation to subordinate its rights under this Sub-Lease and to attorn to the Landlord shall be contingent upon the Landlord's execution of a non-disturbance agreement agreeing that Sub-Lessee's rights and benefits under this Sub-Lease shall not be interrupted as long as Sub-Lessee performs all of its covenants and obligations under this Sub-Lease.

3. *Liability of Lender Under This Lease*
Sub-Lessee expressly agrees that any lender of Lessor and/or mortgagee shall not be held subject to any liability or obligation to Sub-Lessee under this Sub-Lease or otherwise, unless and until the lender and/or mortgagee obtains title to the Property as a result of foreclosure or otherwise. In this event, Lessor's lender or the mortgagee shall be subject to only those liabilities or obligations arising subsequent to the date the lender or mortgagee obtains title to the Property.

S. Estoppel Certificates.
At any time and from time to time, within ten (10) days after written request from Lessor, Sub-Lessee shall execute, acknowledge and deliver to Lessor or to any party designated by Lessor a certificate from Sub-Lessee ("Estoppel Certificate") stating:

i. that Sub-Lessee has accepted the Premises,

ii. the Commencement Date and expiration of this Sub-Lease,

iii. that this Sub-Lease is unmodified and in full force and effect (or, if there have been modifications, that same is in full force and effect as modified and stating the modifications),

iv. whether or not there are then existing any defenses against the enforcement of any of the obligations of Sub-Lessee under this Sub-Lease (and, if so, specifying same),

v. whether or not there are then existing any defaults by Lessor in the performance of its obligations under this Sub-Lease (and, if so specifying same),

vi. the dates, if any, to which Rent and other charges under this Sub-Lease have been paid, and

vii. any other information that may reasonably be required by any of these persons.

Sub-Lessee's failure to execute an Estoppel Certificate within ten (10) days after written demand by Lessor shall constitute an Event of Default by Sub-Lessee hereunder. Any Estoppel Certificate may be relied upon by Lessor and by any prospective purchaser or mortgagee considering the purchase of or a loan on all or any part of the Building or the Property. Sub-Lessee shall indemnify and hold Lessor harmless from and against all costs, damages, expenses, liabilities and fees arising from or in any way related to or connected with Sub-Lessee's failure to deliver any Estoppel Certificate within the time specified.

III. Rights and Responsibilities of Lessor

A. Building and Maintenance

During the Term, and to the extent any of the following are not the fault of Sub-Lessee, Lessor's obligations shall include the following:

1. *Building.*
   Lessor shall maintain all structural components of the Building, including the roof, foundation, exterior walls and other structural components of the Building as necessary to insure the comfortable Occupancy of the Premises.

2. *Mechanicals.*
   Lessor shall provide and maintain the mechanicals serving the Building and the Premises, including but not limited to all heating, ventilation, and air conditioning ("HVAC") equipment, fire protection systems, power supplies and other mechanical equipment serving the Building and the Premises.

3. *Utilities.*
   Lessor shall provide adequate electricity, telephone, broadband internet access, water, sewer, and gas sufficient for the Authorized Use of the Premises. If Sub-Lessee has significant utility needs, Landlord and/or Lessor reserves the right to require intallation so separate metering systems for the Premises, all such costs of installation to be the responsibility of Sub-Lessee.

4. *ADA Compliance.*
   Lessor agrees to be responsible for the demolition, construction, re-routing or other structural changes to the Property, but not including the Premises, to insure that it meets the requirements of the Americans with Disabilities Act, including the adding of ramps, railings, etc. for ingress and egress and the provision of adequate handicapped parking for the Authorized Use.

5. *Premises Changes*
   Lessor reserves the right upon prior written notice to Sub-Lessee, at any time and from time to time, to make alterations, additions, repairs or improvements to or in or to decrease the size or area of all of or any part of the Common Areas of the Building, fixtures and equipment therein and walkways outside of the Building including, without limitation, the heating, ventilating, air conditioning, plumbing, electrical, fire protection, life, safety, security and other mechanical, electrical and communications systems of the Building (herein called the "Building Systems"), and the Common Areas and to change the arrangement and/or location of entrances or passageways, doors and doorways, corridors, elevators, stairs, toilets and other public parts of the Building. Provided, these alterations or additions shall not materially diminish the quality or quantity of services being provided to the Building or adversely affect the functional utilization of the Building.

B. Assignment

1. *Right to Assign*
   Lessor, and Landlord under the Prime Lease, reserve the right to assign, sell, convey, mortgage, hypothecate or make any disposition with regard to its interests in the Building

and/or Premises. This Sub-Lease shall be binding on any successors or assigns. Sub-Lessee covenants and agrees to give its acknowledgments of the conveyance in writing upon request and to execute any written instruments as shall be necessary or convenient in connection therewith.

2. *Effect of Assignment*
Sub-Lessee agrees that upon assignment of Lessor's interest, Lessor shall be relieved of further responsibilities under this Sub-Lease, to the extent so provided in the assignment, and Lessor's assignee shall assume the obligations of Lessor, and Sub-Lessee shall attorn to the assignee.

C. Indemnity.
Lessor agrees to defend, hold harmless and indemnify Sub-Lessee against any legal liability, including all costs, expenses and attorney's fees with respect to any bodily injury, death, and property damage arising from the negligence of Lessor or any of its agents, employees or invitees, or any claim thereof, arising from use of the Common Areas.

D. Security Deposit
Lessor shall hold the Security Deposit as security for Sub-Lessee's performance under this Sub-Lease and as security against any damages caused to the Building or Common Areas by Sub-Lessee, its employees, agents, contractors, subcontractors, invitees, licensees or guests. Lessor shall not apply the Security Deposit towards any sums due, or which come due, under this Sub-Lease except for sums due, or which come due, under this Sub-Lease as a result of Sub-Lessee's failure to perform its rights and responsibilities under this lease or any damage caused by Sub-Lessee, its employees, agents, contractors, subcontractors, invitees, licensees or guests. Upon surrender of the Premises by Sub-Lessee at the end of the Term, Lessor shall return the Security Deposit to Lessor.

IV. Miscellaneous

A. Default by Sub-Lessee and Remedies of Lessor.

1. *The following shall constitute an event of default by Sub-Lessee under this Sub-Lease:*

   i. Failure of Sub-Lessee to pay Rent for more than ten (10) days after Sub-Lessee receives written notice that Rent is due;

   ii. Failure to perform any other provisions of this Sub-Lease where such failure is curable and continues uncured for thirty (30) days after written notice by the non-defaulting party. If the nature of the default is such that it cannot reasonable be cured within thirty (30) days, the default shall not be deemed to have occurred if a cure is commenced within such thirty (30) day period and is diligently pursued to completion.

   iii. If Sub-Lessee shall cease operation of its business and vacate or abandon the Premises.

2. *Upon default by Sub-Lessee, Lessor shall have the following remedies:*
Terminate this Sub-Lease and retake possession of the Premises, without thereby waiving any of Lessor's rights against Sub-Lessee, however, in no event shall Lessor have the right to place a lien on, withhold, store, or deny Sub-Lessee access to Sub-Lessee's Furniture and Fixtures.

   i. Enter the Premises and relet the same or any part of the Premises in the name of Lessor, or otherwise, as Sub-Lessee's agent, for a term shorter or longer than the balance of the then existing Initial Term or Extended Term thereby terminating Sub-Lessee's right to possess the Premises, without terminating Sub-Lessee's obligations to pay (a) the entire balance of Rent and Monthly Utility Payments for the remainder of the then existing Initial Term or Extended Term plus (b) all costs and expenses incurred by Lessor in connection with the reletting of the Premises including. The preceding sentence shall not be deemed to allow Lessor to accelerate all future payments due from Sub-Lessee but only the right to collect said amounts as they would naturally come due under this Sub-Lease.

ii. Recover all reasonable attorney's fees related to the breach or the enforcement of Lessor's rights hereunder.

B. Default by Lessor and Sub-Lessee's Remedies.

Subject to Paragraph IV.H and **Error! Reference source not found.** if Lessor fails to perform any material duties or obligations imposed on it by this Sub-Lease and the Default shall continue for a period of twenty (20) days after written notice thereof has been given to Lessor and Landlord by Sub-Lessee in the manner as provided in Paragraph IV.E, or if performance cannot reasonably be completed within twenty (20) days, Lessor shall not in good faith have commenced performance within the twenty (20) day period and shall not diligently proceed to completion of performance, Sub-Lessee shall have the right to cancel and terminate this Sub-Lease without the necessity of providing Lessor with any additional notice of cancellation and termination. In the event of termination, Sub-Lessee shall not have any further obligation or liability to Lessor for the payment of Rent accruing after the date of termination.

C. Damage or Destruction.

1. *Duty to Restore Property, Building or Common Areas.*

In the event of a partial destruction of the Building during the Term from any cuase other than negligence of Sub-Lessee, Landlord has reserved the right in the Prime Lease to repair the same, at its option, provided the repairs can be made in Landlord's sole discretion within one hundred eighty (180) calendar days after approval from the applicable governmental authorities. Landlord has agreed to make the election to repair or not to repair the Building by written notice to Lessor within twenty (20) days from the date of the destruction. Any partial destruction of the Building wherein Landlord elects to repair the same shall neither annul nor void this Sub-Lease except the Sub-Lessee shall be entitled to a proportionate reduction of Monthly Rent and Additional Rent while the repairs are being made based on the extent to which the making of repairs shall interfere with the business carried on by Sub-Lessee in the Premises, subject to arbitration if the parties cannot agree o nthe extent of interference. In the event the repairs cannot be made by Landlord within this one hudred eighty (180) calendar day perido, or the repairs cannot be made under the laws and regulations of the applicable governmental authorities, this Sub-Lease may be terminated at the option of either party. Should the Premises be destroyed to the extent of fifty percent (50%) or more of the replacement costs therof, this shall be deemed total destruction of the Building and the Premises and this Sub-Lease shall be terminated. Provided, if the particular total destruction is a result of negligence of the Sub-Lessee, its agents or employees, Landlord shall have the right to repair the same, at its option. Any factual dispute between Landlord and Tenant relative to the provisions of this Section shall be subject to arbitration.

2. *Business Continuity*

Except for the willful acts of Landlord and/or Lessor, no damages, compensation or claims shall be payable by Landlord or Lessor for inconvenience, loss of business or annoyance arising from any repair or restoration of any portion of the Building or Premises. Landlord has agreed that it shall use its best efforts to affect any repair or restoration that Landlord is required to perform under the Prime Lease promptly and in a manner which shall not unreasonably interfere with Sub-Lessee use and occupancy. Neither Landlord nor Lessor shall be required to carry insurance of an ykindon Tenant's property and shall not be obligated to repair any damage thereto or replace the same.

3. *Rights of Lender*

Notwithstanding anything contained herein to the contrary, Sub-Lessee acknowledges that in the Prime Lease the Landlord obligation to repair the Premises is subject to the prior right of Landlord's lender to receive insurance proceeds as a result of a fire or other casualty. Any obligation of the Landlord shall be limited to the extent insurance proceeds are received by Landlord for these repairs.

D. Environmental Indemnification.

1. *Compliance with Laws.*
Sub-Lessee shall comply with all applicable Environmental Laws (as defined below) with respect to its use and occupancy of the Premises. As used herein, "Environmental Laws" shall mean all legal requirements relating to (i) the protection of the environment, the safety and health of persons (including employees) or the public welfare from actual or potential exposure (or effects of exposure) to any actual or potential release, discharge, disposal or omission (whether past or present) of any Hazardous Materials (as hereinafter defined) or (ii) the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of any Hazardous Materials. As used herein, the term "Hazardous Materials" shall include any biologically active, chemically active, or hazardous substances or materials and such other hazardous or toxic substances or wastes as are identified, defined or listed in any state or federal statutes or regulations

2. *Indemnity by Sub-Lessee.*
Sub-Lessee shall indemnify, defend and hold harmless Landlord and Lessor and their authorized representatives and their respective officers, directors, shareholders, partners, trustees, members, agents, employees, property manager, contractors, lenders and all persons, and entities claiming through any of these persons or entities ("Landlord/Lessor Parties"), from and against any and all claims, fines, suits, losses, costs, liabilities, demands, expenses, actions and judgments (collectively "Claims") of every kind and character arising from the storage, generation, release, handling, treatment, transportation, or disposal of any Hazardous Materials in or around the Premises caused or permitted (whether accidental, intentional, or negligently) by any Sub-Lessee Party. Expenses related to such Claims may include, without limitation, any and all expenses (including legal and professional fees) Landord, Lessor and/or any Landlord/Lessor Parties may incur (i) to comply with Laws, (ii) in studying or remedying any Hazardous Materials from in or around the Premises, and (iii) for any fines, penalties, or other sanctions assessed upon Lessor and/or any Lessor Parties.

3. *Indemnity by Lessor.*
Lessor shall indemnify, defend and hold harmless Sub-Lessee and its authorized representatives and their respective officers, directors, shareholders, partners, trustees, members, agents, employees, property manager, contractors, lenders and all persons, and entities claiming through any of these persons or entities ("Sub-Lessee Parties"), from and against any and all claims, fines, suits, losses, costs, liabilities, demands, expenses, actions and judgments (collectively "Claims") of every kind and character arising from the storage, generation, release, handling, treatment, transportation, or disposal of any Hazardous Materials in or around the Property existing at the time of this Sub-Lease or caused or permitted (whether accidental, intentional, or negligently) by any Lessor Party. Expenses related to such Claims may include, without limitation, any and all expenses (including legal and professional fees) Sub-Lessee and/or any Sub-Lessee Parties may incur (i) to comply with Laws, (ii) in studying or remedying any Hazardous Materials from in or around the Premises, and (iii) for any fines, penalties, or other sanctions assessed upon Sub-Lessee and/or any Sub-Lessee Parties.

E. Inability to Perform
If Landlord or Lessor is unable to perform, or is delayed in performing, any construction, installations, decorations, repairs, alterations, additions or improvements under this Sub-Lease, or is unable to fulfill or is delayed in fulfilling any of its other obligations under this Sub-Lease by reason of acts of God, accidents, breakage, repairs, strikes, lockouts, other labor disputes, inability to obtain utilities or materials or by any other reason beyond Landlord's reasonable control, then no inability or delay by Landlord shall constitute an actual or constructive eviction,

in whole or in part, or entitle Sub-Lessee to any abatement or diminution of Monthly Rent or Additional Rent or relieve Sub-Lessee from any of its obligations under this Sub-Lease or impose any liability upon Landlord or Lessor or their agents by reason of inconvenience, annoyance, interruption, injury or loss to or interference with Sub-Lessee' business or use and occupancy or quiet enjoyment of the Premises or any loss or damage occasioned thereby.

F. Notices.
Any notices required or given under this lease shall be valid if in writing and sent to the addresses set forth below. Notices shall be deemed given: (i) on the date and time of hand delivery; (ii) three (3) days after being deposited in the United States Mail, postage pre-paid, by certified mail, return receipt requested; (iii) upon delivery if sent by overnight delivery or other courier service.

Lessor:	Sub-Lessee:
Holston Medical Group, P.C. 2323 N. John B. Dennis Hwy. Kingsport, TN 37660	Meadowview ASC, LLC 2323 N. John B. Dennis Hwy. Kingsport, TN 37660

G. Waiver.
No delay or omission in the exercise of a right or remedy of Lessor shall impair such right or be deemed to be a waiver. Acceptance by Lessor of delinquent Monthly Rent shall not be a waiver of any other default; it shall only be a waiver of timely payment of the Monthly Rent received. Acceptance by Lessor of any late performance by Sub-Lessee shall not be a waiver of the default unless stated in writing by Lessor.

H. Force Majeure.
Except as expressly provided otherwise herein, if the performance by either party hereunder, except payment of rent, is delayed or hindered due to Acts of God, strikes, riots, fire, flood, war, delay of carriers, material shortages, embargoes, inclement weather, regulatory requirements or other similar happenings beyond the control of either party, the time for performance hereunder shall be extended to such time as performance can be commenced and completed with all due diligence commensurate with such delay.

I. Eminent Domain
In the event twenty percent (20%) or more of the Premises is taken by condemnation or by right of eminent domain, this Sub-Lease shall terminate and expire on the date possession is taken by the condemnor, and the Basic Annual Rent and Additional Rent shall be apportioned and paid in full to that date. In the event of a partial taking of less than twenty percent (20%) of the Premises, this Sub-Lease shall continue unless the continuation shall not be economically feasible. If this Sub-Lease continues, Landlord has agreed through the Prime Lase to repair and restore at its own expense, as speedily as circumstances permit the Premises as a complete unit of substantially the same proportionate usefulness, design and construction as existing immediately before the taking. Lf the parties cannot otherwise agree, the determination of economic feasibility shall be determined by arbitration. During the period required for repair and restoration, the Monthly Rent and Additional Rent shall be abated proportionately based on the extent to which the making of repairs shall interfere with the business carried on by Sub-Lessee in the Premises, subject to arbitration if the parties cannot agree on the extent of interference. Under the Prime Lease, Landlord's obligation to repair and restore the Premises is subject to the prior right of Landlord's lender to receive the proceeds from any condemnation. Any obligation of Landlord shall be limited to the extent condemnation proceeds are received by Landlord for these repairs.

J. No Merger
There shall be no merger of this Sub-Lease or of the leasehold estate hereby created by reason of the fact that the same person or entity may acquire or hold, directly or indirectly, this Sublease, the Prime Lease or the leasehold estates thereby created or any interest in this Sub-Lease or such leasehold estate.

K. No Brokers.

The parties acknowledge that, except for Excess Space Retail Services, Inc. and Brookside Properties, Inc., there were no brokers or agents involved in obtaining this Sub-Lease and each agree to hold the other harmless from any claims for commission asserted through it.

L. Captions.
The captions of the paragraphs of this Sub-Lease are for convenience only and shall not affect the interpretations of any provision of this Sub-Lease.

M. Choice of Law.
This Sub-Lease shall be construed and enforced under the laws of the state of Tennessee.

N. Counterparts.
This Sub-Lease may be executed in counterparts, all of which shall be one and the same lease.

O. Entire Agreement; Amendment.
This Sub-Lease contains the entire agreement of the parties with respect to any matter mentioned in this Sub-Lease. No prior agreement or understanding shall be effective for any purpose. This Sub-Lease may be amended only by an agreement in writing signed by Lessor and Sub-Lessee.

P. Severability.
A final determination by a court of competent jurisdiction that any provision of this Sub-Lease is invalid shall not affect the validity of any other provision.

Q. Successors.
Subject to the provisions of this Sub-Lease restricting assignment and subleasing by Sub-Lessee, and releasing Lessor upon sale of the Building, all provisions of this Sub-Lease shall bind and inure to the benefit of the parties to this Sub-Lease and their respective heirs, legal representatives and successors in interest.

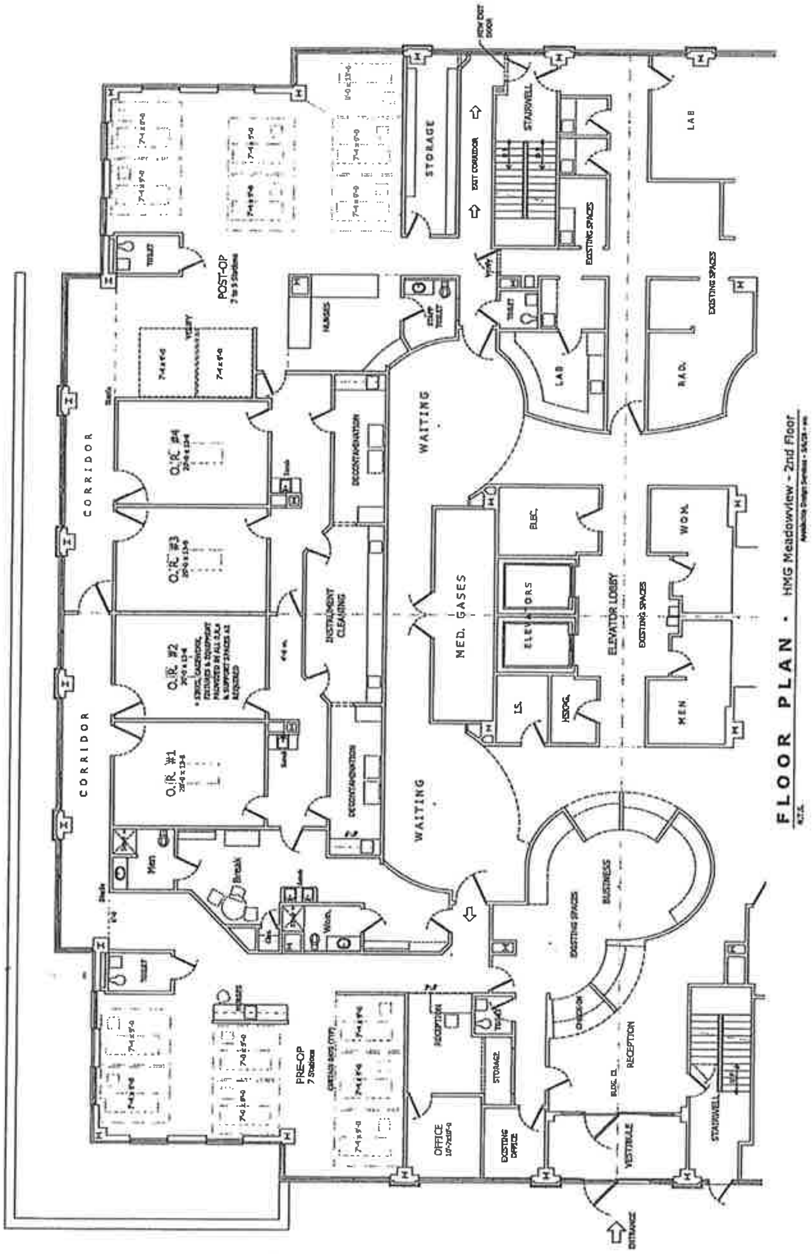
R. Time.
Time if the essence of this Sub-Lease and of every provision in which time for performance is a factor.

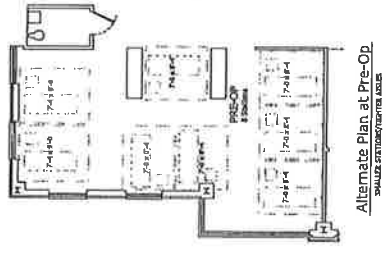
This Sub-Lease is entered into between the parties as of the day and date first written above,

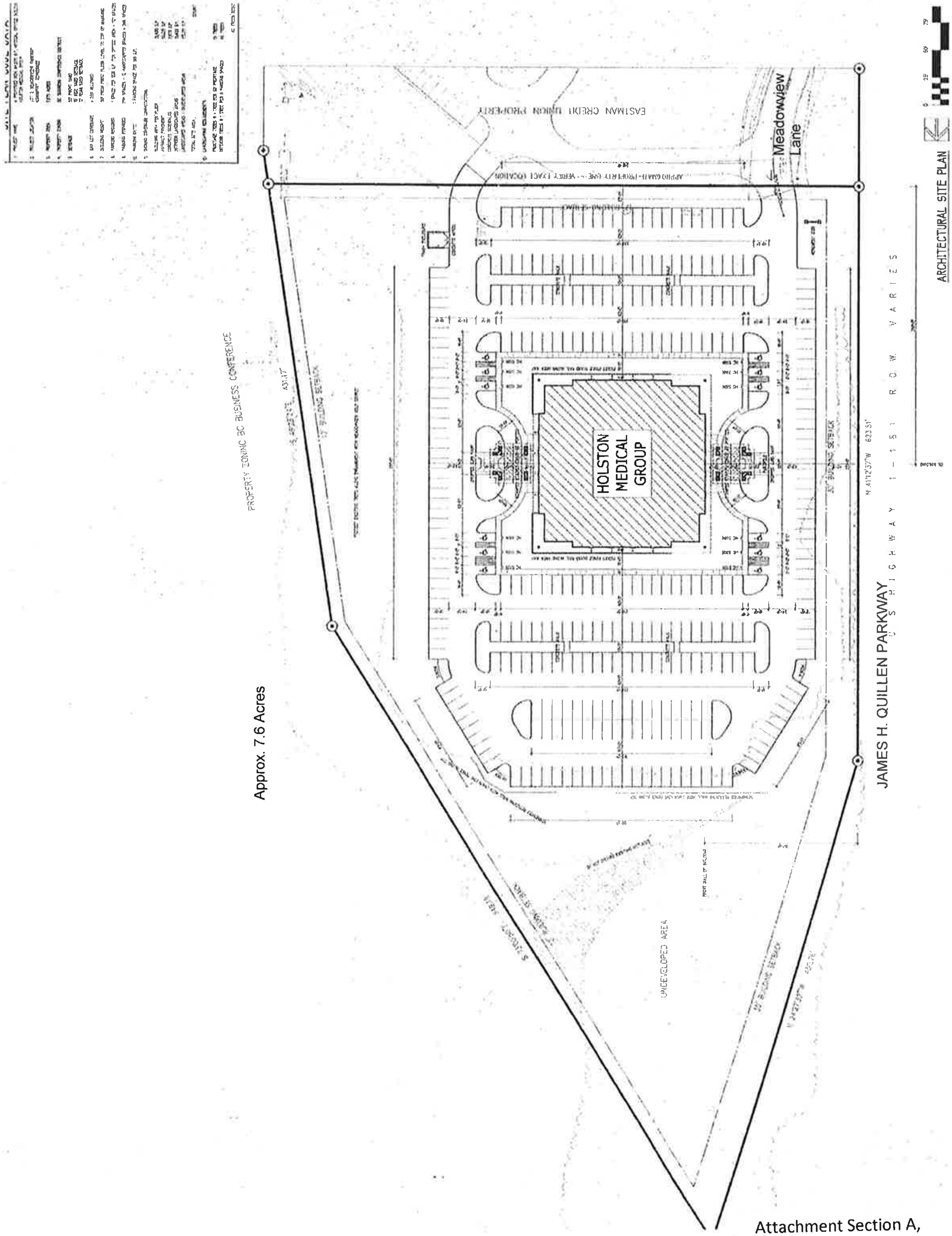
Holston Medical Group, P.C.	Meadowview ASC, LLC
Scott R. Fowler, J.D., M.D., President	Scott R. Fowler, J.D., M.D., Sole Member
Date: 5/24/2018	Date: 5/24/2018

Exhibit A

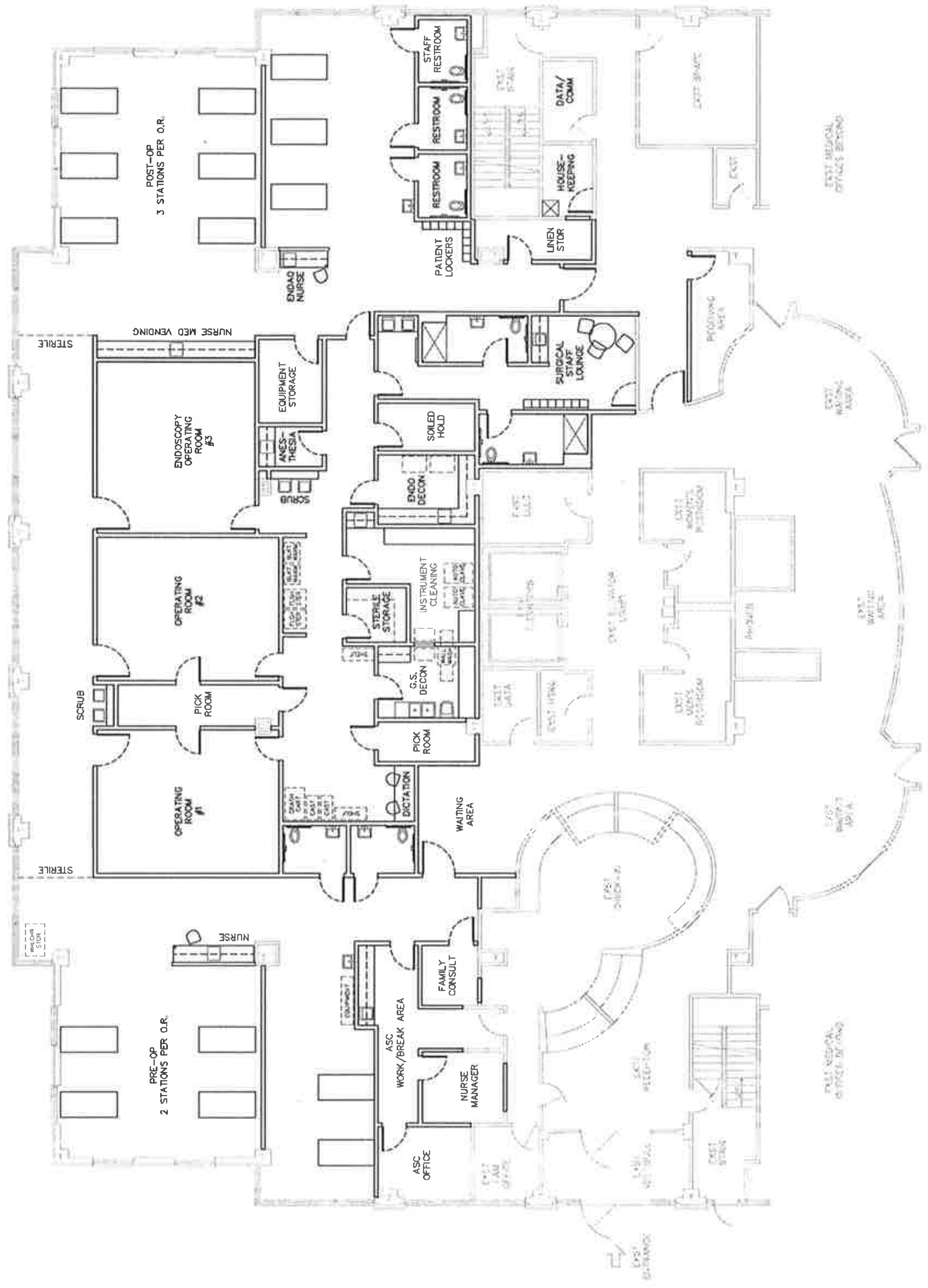
Description of Premises







Attachment Section A, 6B(1)



1 **Proposed ASC Floor Plan**

NOT TO SCALE

STUDIO FOUR DESIGN INC.

ARCHITECTURE & INTERIORS

414 Clinch Ave. Knoxville, TN 37902

p 865 523-5001 f 865 523-5003

studiofourdesign.com

Meadowview ASC, LLC

2033 Meadowview Lane

Kingsport, TN 37660

Project Phase:	Job Number:
CON Application	17156.00
Issue Date:	Partial Floor Plan
06.01.2018	

Revisions

No.	Descripton	Date

A2

Attachment Section A, 6B(2)

Year: 2017

Facility Name	County	Type	Operating Rooms	Procedure Rooms	Total Rooms	Operating Room Cases	Procedure Room Cases	Total Cases	Cases per OR	Cases per PR	Cases per Room Total
Bristol Surgery Center	Sullivan	Multi Specialty	4	1	5	1862	541	2403	466	541	481
Kingsport Endoscopy Corporation	Sullivan	Single Specialty	0	3	3	0	6986	6986	N/A	2329	2329
Sullivan Digestive Center	Sullivan	Single Specialty	0	2	2	0	6295	6295	N/A	3148	3148
Kingsport Ambulatory Surgery Center	Sullivan	Multi Specialty	4	1	5	1947	901	2848	487	901	570
The Endoscopy Center of Bristol	Sullivan	Single Specialty	0	3	3	0	7446	7446	N/A	2482	2482
Sapling Grove ASC	Sullivan	Multi Specialty	2	1	3	1367	285	1652	684	285	551
The Center for Digestive Wellness	Sullivan	Single Specialty	0	2	2	0	3368	3368	N/A	1684	1684
Holston Valley Surgery Center	Sullivan	Multi Specialty	4	3	7	3127	3931	7058	782	1310	1008
Mountain Empire Cataract and Eye Surgery Center	Sullivan	Single Specialty	2	1	3	4073	1516	5589	2037	1516	1863
The Regional Eye Surgery Center	Sullivan	Single Specialty	2	1	3	2874	691	3565	1437	691	1188
Renaissance Surgery Center	Sullivan	Multi Specialty	2	1	3	190	1160	1350	95	1160	450
Sullivan County Total/Avg.		**MS = 5; SS = 6**	**20**	**19**	**39**	**15440**	**33120**	**48560**	**772**	**1743**	**1245**

Hawkins County Total/Avg. There are no licensed ASTCs in Hawkins County

Year: 2016

Facility Name	County	Type	Operating Rooms	Procedure Rooms	Total Rooms	Operating Room Cases	Procedure Room Cases	Total Cases	Cases per OR	Cases per PR	Cases per Room Total
Bristol Surgery Center	Sullivan	Multi Specialty	4	1	5	1655	725	2380	414	725	476
Kingsport Endoscopy Corporation	Sullivan	Single Specialty	0	3	3	0	5924	5924	N/A	1975	1975
Sullivan Digestive Center	Sullivan	Single Specialty	0	2	2	0	4433	4433	N/A	2217	2217
Kingsport Ambulatory Surgery Center	Sullivan	Multi Specialty	4	1	5	2006	556	2562	502	556	512
The Endoscopy Center of Bristol	Sullivan	Single Specialty	0	3	3	0	6141	6141	N/A	2047	2047
Sapling Grove ASC	Sullivan	Multi Specialty	2	1	3	1348	782	2130	674	782	710
The Center for Digestive Wellness	Sullivan	Single Specialty	0	2	2	0	2815	2815	N/A	1408	1408
Holston Valley Surgery Center	Sullivan	Multi Specialty	4	3	7	2375	3463	5838	594	1154	834
Mountain Empire Cataract and Eye Surgery Center	Sullivan	Single Specialty	2	1	3	2391	982	3373	1196	982	1124
The Regional Eye Surgery Center	Sullivan	Single Specialty	2	1	3	2627	813	3440	1314	813	1147
Renaissance Surgery Center	Sullivan	Multi Specialty	2	1	3	226	805	1031	113	805	344
Sullivan County Total/Avg.		**MS = 5; SS = 6**	**20**	**19**	**39**	**12628**	**27439**	**40067**	**631**	**1444**	**1027**

Hawkins County Total/Avg. There are no licensed ASTCs in Hawkins County

Year: 2015

Facility Name	County	Type	Operating Rooms	Procedure Rooms	Total Rooms	Operating Room Cases	Procedure Room Cases	Total Cases	Cases per OR	Cases per PR	Cases per Room Total
Bristol Surgery Center	Sullivan	Multi Specialty	4	1	5	1416	693	2109	354	693	422
Kingsport Endoscopy Corporation	Sullivan	Single Specialty	0	3	3	0	5523	5523	N/A	1841	1841
Sullivan Digestive Center	Sullivan	Single Specialty	0	2	2	0	3362	3362	N/A	1681	1681
Kingsport Ambulatory Surgery Center	Sullivan	Multi Specialty	4	1	5	1991	383	2374	498	383	475
The Endoscopy Center of Bristol	Sullivan	Single Specialty	0	3	3	0	5307	5307	N/A	1769	1769
Sapling Grove ASC	Sullivan	Multi Specialty	2	1	3	1320	1195	2515	660	1195	838
The Center for Digestive Wellness	Sullivan	Single Specialty	0	2	2	0	3043	3043	N/A	1522	1522
Holston Valley Surgery Center	Sullivan	Multi Specialty	4	3	7	2685	3171	5856	671	1057	837
Mountain Empire Cataract and Eye Surgery Center	Sullivan	Single Specialty	2	1	3	2168	948	3116	1084	948	1039
The Regional Eye Surgery Center	Sullivan	Single Specialty	2	1	3	1971	1404	3375	986	1404	1125
Renaissance Surgery Center	Sullivan	Multi Specialty	2	1	3	246	550	796	123	550	265
Sullivan Total/Avg.		**MS = 5; SS = 6**	**20**	**19**	**39**	**11797**	**25579**	**37376**	**590**	**1346**	**958**

HawkinsCounty Total/Avg. There are no licensed ASTCs in Hawkins County

Source: Joint Annual Reports

LETTER OF INTEREST
IN
MEADOWVIEW ASC, LLC

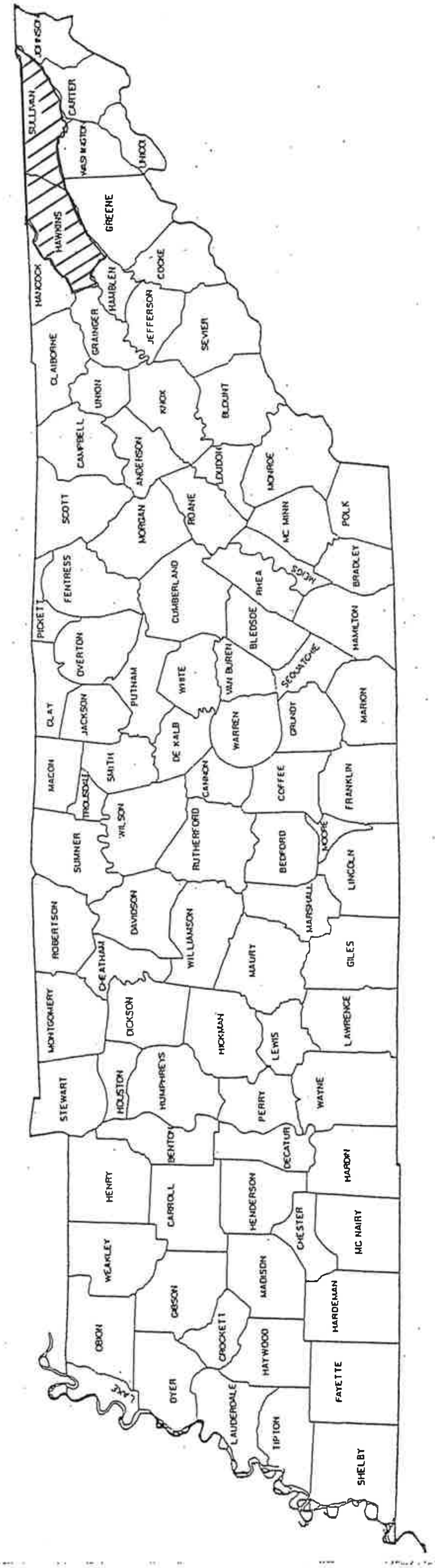
We, the undersigned employees of Holston Medical Group, P.C., are surgeons or proceduralists currently performing surgeries and other procedures at local hospitals and surgery centers.

It is our desire that an independent, physician-owned, surgery center be built to accommodate our surgeries and procedures in the local community. This is desired in order to provide a patient-focused environment consistent with our practice in a large multi-specialty medical group, to enable contracting that will meet the needs of our value-based arrangements with managed care organizations, and to give us more direct input and control over the center.

This has been an internal objective for quite some time and we fully intend and plan to be investors and owners of Meadowview ASC, LLC, upon its completion.

Lawrence Bailey, M.D.	Jason Park, M.D.
Leon Bass, M.D.	Lindsay Remy, M.D.
Mary Francisco, M.D.	Daphne Schalau, M.D.
Steven Holt, M.D.	Crystal Seluk, ~~M.D.~~ DO
Jeffrey Hunt, M.D.	Dallas Shone, M.D.
Steven Krein, M.D.	Cheryl Stanski, M.D.
D.O. Rebecca Krzyminski, ~~M.D.~~ D.O.	Christy Stevens, ~~M.D.~~ D.O.
Chad Lawrence, M.D.	Thomas Thomas, M.D.
Christopher Mitchell, M.D.	Ashraf Youssef, M.D.

Attachment Section C,
Need, CON Standards, 2



Attachment Section B,
Need, 3

Demographic Variable/ Geographic Area	Department of Health/Health Statistics							Bureau of the Census				TennCare	
	Total Population- Current Year (2018)	Total Population- Projected Year (2022)	Total Population-% Change	*Target Population- Current Year	*Target Population- Project Year	*Target Population-% Change	Target Population Projected Year as % of Total	Median Age (2012-2016)	Median Household Income	Person Below Poverty Level**	Person Below Poverty Level as % of Total (2012-2016)	TennCare Enrollees	TennCare Enrollees as % of Total
Sullivan County	156,677	156,345	-0.21%	126,568	126,739	0.14%	81%	44.5	$40,983	26,322	16.8%	33,256	21.2%
Hawkins County	56,620	56,520	-0.18%	45,529	46,023	1.09%	81%	43.8	$37,883	13,225	19.2%	14,602	25.8%
Primary Service Area Total	213,297	212,865	-0.20%	172,097	172,762	0.39%	81%	44.15	$39,433	39,547	18.5%	47,858	22.4%
State of TN Total	6,769,368	6,992,559	3.30%	5,252,693	5,441,378	3.59%	78%	38.5	$46,574	1,164,331	17.2%	1,415,846	20.9%

*The Target Population is ages 18+

**The Census Bureau website does not provide the number of persons below poverty level. The totals in this column are calculated by percentage of individuals below poverty level in 2015 divided by total population in 2016.

JASA GENERAL CONTRACTOR
J. A. STREET & ASSOCIATES

245 Birch Street P. O. Box 725 Blountville, TN 37617
Phone (423) 323-8017 Fax (423) 323-1065

July 11, 2018

Mr. Todd Miller
2323 N John B. Dennis Hwy.
Kingsport, TN 37660

RE: New Ambulatory Surgery Center
2033 Meadowview Ln., Suite 210
Kingsport, TN 37660

Dear Mr. Miller:

We have reviewed the design specifications for the proposed ambulatory surgery center to be located at 2033 Meadowview Ln., Suite 210, Kingsport, Tennessee, 37660. Based on our professional experience in the design and construction of similar health care facilities; believe the cost of $1,752,930.00 with a 10% contingency of $147,553.00 appears to be appropriate for the scope of this project.

This project will be designed and constructed to meet all the following applicable codes:

Tennessee Department of Health and the City of Kingsport, Tennessee

- 2012 International Building Code
- 2012 International Existing Building Code
- 2012 International Fuel and Gas Code
- 2012 International Fire Code
- 2011 National Electric Code
- 2012 International Mechanical Code
- 2012 International Plumbing Code
- 2012 International Energy Conservation Code
- 2012 NFPA 101 Life Safety Code
- 2010 ADA Standards for Accessible Design
- 2009 ANSI A117.1 Accessible and Usable Buildings and Facilities
- 2010 FGI-Guidelines for Design and Construction of Health Care Facilities
- 2017 Rules of the Tennessee Department of Health Board for Licensing Health Care Facilities

If you have any additional comments or questions, please feel free to contact me at 423-323-6713.

Sincerely,

JAStreet

J.A. Street
CEO/Founder

JAS/ld

32007769 v1

HMG Holston Medical Group 2323 N. John B. Dennis Hwy. • Kingsport, TN 37660 • 423-857-2000 Fax 423-857-2050

Scott R. Fowler, J.D., M.D., President & CEO • Samuel D. Breeding, M.D., Chief Medical Officer

To: Meadowview ASC, LLC
From: Craig Hewitt, CFO, Holston Medical Group, P.C.
Date: July 11, 2018
RE: Funding for ASC

On behalf of Holston Medical Group, P.C. ("HMG"), I can represent to Meadowview ASC, LLC, the following funding terms:

- HMG can loan to Meadowview up to $1,500,00.00 for purchase of equipment and supplies;
- The loan will carry an interest rate of the prime rate as published in the Wall Street Journal plus 2%, adjusted annually;
- HMG reserves the right to file UCC-1 financing statements in order to perfect a security interest in Meadowview's accounts receivable and equipment;
- The loan will be amortized over 10 years and may be repaid at any time without penalty;

The foregoing is contingent upon the receipt of a Certificate of Need from the TN Health Services and Development Agency for an ambulatory surgery center to be located at 2033 Meadowview Ln, Suite 210, Kingsport, Tennessee, 37660.

Sincerely,

Craig Hewitt
Chief Financial Officer

HOLSTON MEDICAL GROUP, PC

AND RELATED COMPANIES

COMBINED FINANCIAL STATEMENTS

AND SUPPLEMENTARY INFORMATION

For the Year Ended December 31, 2017

HOLSTON MEDICAL GROUP, PC

AND RELATED COMPANIES

COMBINED FINANCIAL STATEMENTS AND

SUPPLEMENTARY INFORMATION

For the Year Ended December 31, 2017

HOLSTON MEDICAL GROUP, PC AND RELATED COMPANIES
TABLE OF CONTENTS
December 31, 2017

Blackburn,
Childers &
Steagall, PLC
Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Members of
Holston Medical Group, PC and
Related Companies

We have audited the accompanying combined financial statements of Holston Medical Group, PC (a Tennessee corporation) and Related Companies (collectively referred to as the Company), which comprise the combined balance sheet as of December 31, 2017, and the related combined statements of income, equity (deficit), and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Johnson City	801B Sunset Drive, Johnson City, TN 37604	423.282.4511
Kingsport	1361 South Wilcox Drive, Kingsport, TN 37660	423.246.1725
Greeneville	550 Tusculum Boulevard, Greeneville, TN 37745	423.638.8516

www.BCScpa.com

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Holston Medical Group, PC and Related Companies as of December 31, 2017, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The comparative combined schedules, as listed within the table of contents, are presented for purposes of additional analysis and are not a required part of the combined financial statements. The combining and consolidating statements, as listed within the table of contents, are presented for purposes of additional analysis of the combined financial statements rather than to present the financial position and results of operations of the individual companies, and they are also not a required part of the combined financial statements. The comparative combined schedules, and the combining and consolidating statements (hereinafter referred to collectively as the supplementary information) are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 2017 combined financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the combined financial statements for the year ended December 31, 2017, as a whole.

We also have previously audited, in accordance with auditing standards generally accepted in the United States of America, the combined balance sheets of the Company as of December 31, 2016 and 2015, and the related combined statements of income, equity (deficit), and cash flows for each of the two years in the years ended December 31, 2016 and 2015 (none of which are presented herein), and we expressed unmodified opinions on those combined financial statements. Those audits were conducted for purposes of forming an opinion on the combined financial statements as a whole. The comparative combined schedules for the years ended December 31, 2016 and 2015 are presented for purposes of additional analysis and are not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2016 and 2015 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of those combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the comparative combined schedules for the years ended December 31, 2016 and 2015 are fairly stated in all material respects in relation to the combined financial statements from which they have been derived.

Blackburn, Childers & Steagall, PLC

BLACKBURN, CHILDERS & STEAGALL, PLC
Johnson City, Tennessee

April 5, 2018

HOLSTON MEDICAL GROUP, PC AND RELATED COMPANIES
COMBINED BALANCE SHEET
December 31, 2017

ASSETS	
CURRENT ASSETS	
Cash	$ 742,311
Restricted Cash	302,000
Prepaid Expenses	518,456
Accounts Receivable - Patients, Net of Allowance	10,128,621
Current Portion of Accounts Receivable - Medical Home	9,167,066
Accounts Receivable - Other	653,867
Due from Related Parties	50,895
Inventory	309,925
Current Maturities of Notes Receivable	38,732
Total Current Assets	21,911,873
PROPERTY AND EQUIPMENT	
Land	662,500
Construction in Progress	5,463
Depreciable Property and Equipment, Net of Accumulated Depreciation	16,646,830
Net Property and Equipment	17,314,793
OTHER ASSETS	
Investment in Highlands Physicians PHO	184,035
Investment in MMAC MedPlaza Kingsport, LLC	1,600,000
Investment in Sapling Grove Ambulatory Surgery Center, LLC	23,530
Investment in Holston Valley Ambulatory Surgery Center, LLC	753,095
Notes Receivable, Net of Current Maturities	97,960
Accounts Receivable - Medical Home, Net of Current Portion	2,842,253
Goodwill, Net of Accumulated Amortization	1,050,763
Total Other Assets	6,551,636
TOTAL ASSETS	$ 45,778,302

(Continued)

HOLSTON MEDICAL GROUP, PC AND RELATED COMPANIES
COMBINED BALANCE SHEET
December 31, 2017

LIABILITIES AND EQUITY	
LIABILITIES	
CURRENT LIABILITIES	
Bank Overdraft	$ 178,400
Accounts Payable	3,879,362
Health Insurance Claims Payable	616,924
Patient Credit Balances Due	1,131,172
Accrued Wages and Payroll Liabilities	2,378,491
Accrued Interest	43,491
Accrued Taxes	55,071
Other Accrued Liabilities	23,322
Current Portion of Deferred Revenue	600,000
Current Maturities of Notes Payable	939,543
Current Maturities of Capital Leases Payable	1,167,505
Total Current Liabilities	11,013,281
LONG-TERM LIABILITIES	
Line of Credit	2,443,809
Deferred Revenue, Net of Current Portion	1,200,000
Notes Payable, Net of Current Maturities and Unamortized Loan Issuance Costs	8,536,129
Capital Leases Payable, Net of Current Maturities	4,459,600
Net Deferred Tax Liability - Federal	3,510,710
Net Deferred Tax Liability - State	724,088
Total Long-Term Liabilities	20,874,336
TOTAL LIABILITIES	31,887,617
EQUITY	
Controlling Interests	
Common Stock, $10 Par Value, 100,000 Shares Authorized, and 500 Shares Issued and Outstanding	5,000
Paid-In Capital	5,554,562
Retained Earnings	11,737,825
Members' Equity	(274,116)
Less: Noncontrolling Interests	(3,132,586)
TOTAL EQUITY	13,890,685
TOTAL LIABILITIES AND EQUITY	$ 45,778,302

The accompanying notes are an integral part of these combined financial statements.

HOLSTON MEDICAL GROUP, PC AND RELATED COMPANIES
COMBINED STATEMENT OF INCOME
For the Year Ended December 31, 2017

REVENUE		
Professional and Ancillary Services,		
Net of Contractual Adjustments	$	88,795,412
Less: Provision for Bad Debts		(2,294,240)
Net Patient Service Revenue		86,501,172
Medical Home Revenues		20,008,573
Management Fees		876,447
Rental Income		58,840
ATAC Income		283,932
AllNet Revenue		458,900
Health Information Exchange Revenue		1,658,571
Leased Employee Revenue		2,726,066
Clinical Research		1,842,942
Investment Loss		(351,502)
Grant Revenue		71,148
Pre-Participation Agreement Revenue		100,000
Other Revenue		587,163
TOTAL REVENUE		114,822,252
OPERATING EXPENSES		
Salaries and Wages		55,349,198
Leased Employee Salaries and Wages		2,453,207
Employee Benefits		7,416,898
Bank Charges		346,090
Books and Subscriptions		11,685
Business Taxes		337,429
Cell Phone		151,948
Clinical Research Expenses		143,642
Continuing Education		52,851
Contributions		250
Depreciation and Amortization		2,348,517
Dues and Licenses		11,931
Employee Recognition and Events		1,797
Employee Wellness Program		19,500
Groundskeeping Services		121,411
Housekeeping Services		508,090
Insurance and Other Costs		1,215,133
Laboratory Supplies		478,607
Laundry Expense		95,130

(Continued)

HOLSTON MEDICAL GROUP, PC AND RELATED COMPANIES
COMBINED STATEMENT OF INCOME
For the Year Ended December 31, 2017

OPERATING EXPENSES (CONTINUED)	
License and Inspection	46,151
Marketing	382,141
Meals and Entertainment	2,975
Miscellaneous	4,688
Non-Physician Recruitment	1,160
Physician Recruitment	37,866
Postage and Shipping	175,439
Professional Services	268,655
Property Taxes	1,178,828
Purchased Services	7,662,740
Radiology Supplies	204,588
Rental Expense	11,103,501
Repairs and Maintenance	3,606,723
Supplies	7,958,409
Travel Expenses	168,831
Utilities	2,219,094
TOTAL OPERATING EXPENSES	106,085,103
OPERATING INCOME	8,737,149
OTHER INCOME (EXPENSE)	
Loss on Sale of Equipment	(16,104)
Income Tax Refund	1,209,424
Interest Earned	6,825
Interest Expense	(670,944)
TOTAL OTHER INCOME (EXPENSE)	529,201
INCOME BEFORE PROVISION FOR INCOME TAXES	9,266,350
PROVISION FOR INCOME TAXES	(2,343,703)
NET INCOME	6,922,647
LESS: NONCONTROLLING INTEREST	(150,386)
CONTROLLING INTEREST	$ 6,772,261

The accompanying notes are an integral part of these combined financial statements.

HOLSTON MEDICAL GROUP, PC AND RELATED COMPANIES
COMBINED STATEMENT OF EQUITY (DEFICIT)
For the Year Ended December 31, 2017

	Controlling Interests					
	Common Stock	Paid-In Capital	Retained Earnings	Members' Equity (Deficit)	Noncontrolling Interests	Total
BALANCE, BEGINNING OF YEAR	$ 5,000	5,429,562	4,870,691	919,592	(3,119,660)	8,105,185
Net Income (Loss)	-	-	6,867,134	(94,873)	150,386	6,922,647
Repurchase of Members' Interests	-	(45,000)	-	(182,580)	-	(227,580)
Contributions from Members	-	170,000	-	-	-	170,000
Distributions to Members	-	-	-	(916,255)	(163,312)	(1,079,567)
BALANCE, END OF YEAR	$ 5,000	5,554,562	11,737,825	(274,116)	(3,132,586)	13,890,685

The accompanying notes are an integral part of these combined financial statements.

HOLSTON MEDICAL GROUP, PC AND RELATED COMPANIES
COMBINED STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Net Income	$ 6,922,647
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
Depreciation and Amortization	2,348,517
Provision for Losses on Accounts Receivable	(4,409,155)
Loan Forgiveness	(112,437)
Loss on Sale of Equipment	16,104
Change in Deferred Income Taxes	2,343,703
(Increase) Decrease in Assets:	
Prepaid Expenses	37,960
Accounts Receivable - Patients	4,573,530
Accounts Receivable - Medical Home	(5,000,557)
Accounts Receivable - Other	26,790
Due from Related Parties	(26,469)
Inventory	(119,437)
Increase (Decrease) in Liabilities:	
Accounts Payable	(602,252)
Health Insurance Claims Payable	151,358
Patient Credit Balances Due	(500,769)
Due to Related Parties	(24,066)
Accrued Wages and Payroll Liabilities	129,743
Accrued Interest	(12,097)
Accrued Taxes	5,347
Other Accrued Liabilities	(40,281)
Deferred Revenue	(600,000)
Net Cash Provided by Operating Activities	5,108,179
CASH FLOWS FROM INVESTING ACTIVITIES	
Construction in Progress	(5,463)
Property and Equipment Additions	(3,365,667)
Net Proceeds from Sale or Disposal of Equipment	19,946
Decrease in Tithes Receivable from Related Party	65,785
Investment in Highlands Physicians PHO	(6,000)
Investment in Sapling Grove Ambulatory Surgery Center, LLC	979,857
Investment in Holston Valley Ambulatory Surgery Center, LLC	(424,125)
Investment Distributions Received	499,500
Net Cash Used for Investing Activities	(2,236,167)

(Continued)

HOLSTON MEDICAL GROUP, PC AND RELATED COMPANIES
COMBINED STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2017

CASH FLOWS FROM FINANCING ACTIVITIES	
Increase in Bank Overdraft	178,400
Principal Payments Received on Notes Receivable	62,832
Proceeds from Line of Credit	40,093,970
Principal Payments on Line of Credit	(44,066,542)
Proceeds from Issuance of Long-Term Debt	2,692,179
Principal Payments on Long-Term Debt	(663,241)
Principal Payments on Capital Leases	(866,145)
Contributions from Members	125,000
Distributions to Members	(1,079,567)
Repurchase of Members' Interests	(219,498)
Net Cash Used for Financing Activities	(3,742,612)
NET DECREASE IN CASH	(870,600)
CASH, BEGINNING OF YEAR	1,914,911
CASH, END OF YEAR	$ 1,044,311
RECONCILIATION OF CASH FROM COMBINED STATEMENT OF CASH FLOWS TO COMBINED BALANCE SHEET	
Cash	$ 742,311
Restricted Cash	302,000
CASH, END OF YEAR	$ 1,044,311
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION	
OPERATING ACTIVITIES:	
Cash Paid for Interest	$ 683,041
Cash Paid for Federal Income and State Excise Taxes	$ 188,749
NONCASH INVESTING AND FINANCING ACTIVITIES:	
Forgiveness of Long-Term Debt	$ 112,437
Member Notes Receivable Written Off for Buy-Outs of Ownership	$ 8,082
Capital Lease Obligations Incurred for Use of New Equipment	$ 2,965,255
Member Buy-Ins with Notes Receivable	$ 45,000

The accompanying notes are an integral part of these combined financial statements.

NOTE 1 - DESCRIPTION OF BUSINESSES

Descriptions of Holston Medical Group, PC (HMG, PC); HMG Medical Management, LLC (HMG MM, LLC); Comprehensive Surgery, LLC (CS, LLC); HMG ASC Investments, LLC (HMG ASC, LLC); HMG Medical Plaza, GP (HMG MP, GP); OnePartner, LLC (OP, LLC); HMG Real Estate Partners, GP (HMG REP, GP); MedPlaza Investments, GP (MPI, GP); APS Health Partners, LLC (APS HP, LLC); and APS Operations, LLC are summarized below to assist the reader in reviewing the companies' financial statements.

Organization

HMG, PC, formed in 1977, provides a full range of medical services in northeast Tennessee and Southwest Virginia (see Note 8).

HMG MM, LLC, formed in 1999, provides medical practice support services, general financial accounting services, payroll and benefits administration, information technology services, managed care contracting, physician recruitment, and facilities management to HMG, PC and other related companies. In exchange for monthly management fees received, HMG MM, LLC provides accounting, billing, collection and accounts payable services (see Note 8), as well as repair and maintenance services for external entities managed.

CS, LLC, formed in 2000, is an investment holding company for the shares of Sapling Grove Ambulatory Surgery Center, LLC. CS, LLC is owned by HMG physicians and managed by a shareholder Chief Manager with management services provided by HMG MM, LLC (see Notes 4 and 8).

HMG ASC, LLC was formed in 2006 as an investment holding company for shares of Holston Valley Ambulatory Surgery Center, LLC. HMG ASC, LLC is owned by HMG physicians and managed by a shareholder Chief Manager with management services provided by HMG MM, LLC (see Notes 4 and 8).

HMG MP, GP was formed in 2006 as a real estate holding company in order to construct a new medical office building at Kings Giant Plaza. The company is owned by member physicians with its primary source of revenue from related companies (see Note 8). This company was dissolved with the State of Tennessee by December 31, 2017.

OP, LLC was formed as a Virginia Limited Liability Company in 2007 for three purposes – data backup service, management services and clinical research. The company is 54% owned by HMG, PC and is presented within the supplementary combining statements as consolidated with HMG, PC due to HMG, PC being the primary beneficiary of OP, LLC, a variable interest entity, as well as its parent entity based on ownership and control (see Notes 2 and 8).

HMG REP, GP was formed in 2015 for the sole purpose of holding real estate. The company is owned by member physicians with its primary source of revenue from related companies (see Note 8).

MPI, GP was formed in 2016 for the sole purpose of investing in MMAC MedPlaza Kingsport, LLC, an external entity which purchased the real property of HMG MP, GP in March 2016.

NOTE 1 - DESCRIPTION OF BUSINESSES (CONTINUED)

Organization (Continued)

APS HP, LLC was formed in 2017 for the purpose of becoming an Accountable Care Organization (ACO) with providers serving Northeast Tennessee, Southwest Virginia, and North Carolina. The company is wholly-owned by APS Operations, LLC.

APS Operations, LLC was formed in 2017 for the purpose of providing services as a managed care organization to help practice groups and ACOs become clinically integrated by offering proven clinical practices and technology platforms. The company is wholly-owned by HMG, PC.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Combination

Due to the common ownership and management, combined financial statements are being presented, which include the accounts of HMG, PC and Subsidiaries; HMG MM, LLC; CS, LLC; HMG ASC, LLC; HMG MP, GP; HMG REP, GP; and MPI, GP (collectively referred to as the Company, except to the extent the context otherwise requires). All material intra-entity transactions have been eliminated.

Principles of Consolidation

As noted within the Organization section above, APS HP, LLC is wholly-owned by APS Operations, LLC, which is wholly-owned by HMG, PC. Due to the common management and significant influence present in all of these investment relationships, consolidating schedules are presented for APS Operations, LLC and Wholly-Owned Subsidiary, as well as HMG, PC and Subsidiaries, respectively, with all material intra-entity transactions having been eliminated.

Generally accepted accounting principles provide a framework for identifying variable interest entities (VIEs) and determining when a company should include the assets, liabilities, noncontrolling interests, and results of activities of a VIE in its consolidated financial statements. In general, a VIE is a corporation, partnership, limited liability corporation, trust, or any other legal structure used to conduct activities or hold assets that (1) has an insufficient amount of equity to carry out its principal activities without additional subordinated financial support, (2) has a group of equity owners that are unable to direct the activities of the entity that most significantly impact its economic performance, or (3) has a group of equity owners that do not have the obligation to absorb losses of the entity or the right to receive returns of the entity. A VIE should be consolidated if a party with an ownership, contractual, or other financial interest in the VIE that is considered a variable interest (a variable interest holder) has the power to direct the VIE's most significant activities and the obligation to absorb losses or right to receive benefits of the VIE that could be significant to the VIE. A variable interest holder that consolidates the VIE is called the primary beneficiary. Upon consolidation, the primary beneficiary generally must record all of the VIE's assets, liabilities, and noncontrolling interests at fair value and subsequently account for the VIE as if it were consolidated based on majority voting interest.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Principles of Consolidation (Continued)

In 2013, HMG, PC's management determined that its support of OP, LLC was permanent for the continued existence of OP, LLC, and thus, HMG, PC is the primary beneficiary of OP, LLC, a variable interest entity. As a result, consolidating statements are presented for HMG, PC and Subsidiaries, including OP, LLC, with all material intra-entity transactions having been eliminated.

Concentration of Credit Risk Arising from Cash Deposits in Excess of Insured Limits

All companies maintain cash balances at financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). At various times during the year, the companies had deposits in excess of FDIC limits.

Restricted Cash

Restricted cash balances include those externally restricted by (1) a vendor for use in final settlements on accounts receivable collection or (2) a title company, held in escrow, resulting from the prior year sale of real estate.

Inventory

Inventories, which include materials, medicine, supplies and software licenses, are stated at the lower of cost or market. Cost is determined by the first-in, first-out (FIFO) method.

Property and Equipment

Property and equipment are stated at cost less any accumulated depreciation. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized.

Depreciation is provided for using the straight-line method over the useful lives of the assets as follows:

Buildings	39 years
Leasehold Improvements	10 - 40 years
Furniture and Equipment	5 - 10 years
Information Services Equipment	3 - 7 years

Deferred Loan Costs

Deferred loan costs represent amounts incurred to obtain long-term financing and are amortized on a straight-line basis over the term of the related loan. Debt issuance costs related to a recognized debt liability are presented in the Combined Balance Sheet as a direct reduction from the carrying amount of that debt liability. Amortization of the debt issuance costs is reported as interest expense in the Combined Statement of Income.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-Term Debt

Based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities, the fair value of long-term debt approximates its carrying cost.

Patient Service Revenue and Accounts Receivable

Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Management's policy for the recognition of patient service revenue is to record the revenue and related receivable at the gross charges incurred at the time of service, regardless of the expectation of payment from uninsured (self-pay) patients or of third-party payor agreements being settled at less than these gross established rates. Provisions for estimated third-party payor settlements are provided in the period the related services are rendered as contractual adjustments shown as netted against professional service fees. Contractual adjustments represent the difference between the established billing rates and the agreed upon reimbursement from Medicare, TennCare, Medicaid and other third-party payment programs. The Company has agreements with third-party payors which set rates prospectively. Prospective rate setting is a method used to set payment rates in advance of the delivery of health care services. Such payment rates determine what third parties will pay for health care services during the rate period. The intent of prospective rate setting is to establish payment rates before the period to which they will apply and that are not subject to change.

Patient accounts are deemed to be delinquent after 30 days. An allowance for uncollectible accounts is calculated each month based on an aged, rolling average of patient accounts receivable. All accounts with an age of 180 days or greater are considered fully uncollectible. A percentage of accounts are included in the allowance for uncollectible accounts based on the age of the accounts and historical experience. Accounts written off are posted as part of the provision for bad debts.

Medical Home Revenue and Accounts Receivable

Medical Home is a model of care that is based on the Company receiving a fee-for-value as an alternative to the patient service revenue above which is based on a fee-for-service. The goal of Medical Home is to reduce costs while improving quality and efficiency through an innovative approach to delivering comprehensive patient-centered preventative and primary care. In these efforts, the Company has partnered with multiple insurance companies of which payment can be based on various methodologies, including but not limited to a per-member, per-month fee, traditional fee-for-service payments, and payments for completed enrollment applications. These fees can accrue from a few months to over one year and are considered fully collectible.

Charity Care

HMG, PC provides care to patients who meet certain criteria, under its charity care policy, without charge or at amounts less than established rates. Because HMG, PC does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Charity Care (Continued)

The Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) requires charity care to be calculated based on direct and indirect costing methods, or estimation thereof. Management's estimate of the amount of expense incurred for services and supplies furnished under HMG, PC's charity care policy is based on the percentage of billings collected under normal third-party payor agreements, less a percentage estimate for planned profit margin.

Personal Time Off

All full-time and regular part-time employees scheduled to work at least 30 hours per week are entitled to earn personal time off (PTO). PTO is earned based on years of service and the number of hours an employee is scheduled to work. PTO can be used in one-hour increments for vacation, sick time, holidays, or personal needs at the discretion of the employee. PTO balances are paid out to the employee upon termination of employment. The PTO policy was changed January 1, 2012 to state that employees are only allowed to accumulate a PTO balance of up to 80 hours, a decrease from 720 hours. Any PTO exceeding 80 hours is forfeited. Employees with accrued PTO prior to January 1, 2012 are able to carry the balance in a separate bank called VBANK (Vacation Bank). This is available for employees to use once they have exhausted all current year PTO. VBANK may be paid out at the Company's discretion or upon termination of employment. The VBANK will never increase.

Income Taxes

The Tax Cuts and Jobs Act of 2017 (TCJA) was signed into law on December 22, 2017 by President Donald J. Trump. The law includes significant changes to the U.S. corporate income tax system, including a federal corporate rate reduction from 35% to 21%, limitations on the deductibility of interest expense and executive compensation, and the transition of U.S. international taxation from a world-wide tax system to a territorial tax system. In accordance with a question and answer document used by the FASB staff on January 11, 2018, we are applying the guidance in Securities and Exchange Commission Staff Accounting Bulletin (SAB) 118, *Income Tax Accounting Implications of the Tax Cuts and Jobs Act*, which provides guidance on applying FASB ASC 740, *Income Taxes*, if the accounting for certain income tax effects of the TCJA are incomplete by the time the financial statements are issued for a reporting period. Specifically, SAB 118 permits companies to use reasonable estimates and provisional amounts from some line items for taxes when preparing year end 2017 financial statements. Additional disclosures required by SAB 118 are included in Note 19.

For HMG, PC, provision for federal income taxes has been made, as applicable, based on the appropriate percentage of income before federal taxes. Income taxes are provided for the tax effects of transactions reported in the combined financial statements and consisted of taxes currently due. For federal and state income tax reporting purposes, the modified accrual basis of accounting is used.

For all other companies, no provision for federal income taxes has been made in the combined financial statements since the companies are taxed as partnerships and profits and losses are reported on the individual members' tax returns.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Significant estimates include: allowances for uncollectible patient accounts receivable, third-party payor settlements, valuation of goodwill, depreciation of property and equipment, and amortization of goodwill and service agreements. Accordingly, actual events and results could differ from those estimates and assumptions in the next 12 months.

Subsequent Events

The Company has evaluated subsequent events through April 5, 2018, the date which the combined financial statements were available to be issued.

NOTE 3 - PATIENT ACCOUNTS RECEIVABLE

Patient accounts receivable in HMG, PC are comprised of amounts due from private-pay patients, third-party insurance, Medicaid, TennCare and Medicare. Balances at December 31, 2017 are as follows:

Accounts Receivable - Patients	$ 22,323,282
Less: Allowance for Doubtful Accounts	(12,194,661)
Net Accounts Receivable - Patients	$ 10,128,621

NOTE 4 - INVESTMENTS

HMG, PC owns shares in the Physician Hospital Organization (PHO) of Highlands Physicians. These shares were purchased in order for HMG physicians to have rights to practice within that network. HMG, PC's management does not exercise significant influence over the operation of the Highlands Physicians PHO. Therefore the investment is accounted for using the cost method, whereby the investment is recorded at cost and dividends are treated as income when received. The cost method approximates the fair value.

HMG, PC owned 50% of Qualuable Medical Professionals, LLC, an accountable care organization created in 2012 to allow participation in the Medicare Shared Savings Program, through December 31, 2017. The investment was accounted for using the equity method, though accumulated shared losses decreased the investment value to $0 prior to HMG, PC's departure from the investment.

MPI, GP owns 6.82% of MMAC MedPlaza Kingsport, LLC. MPI, GP's management does not exercise significant influence over the operation of MMAC MedPlaza Kingsport, LLC, and therefore, the investment is accounted for using the cost method, whereby the investment is recorded at cost and dividends are treated as income when received. The cost method approximates fair value.

NOTE 4 - INVESTMENTS (CONTINUED)

CS, LLC owns 25 units (25%) of Sapling Grove Ambulatory Surgery Center, LLC (SGASC). The investment is accounted for using the equity method. CS, LLC's sole ability to produce income is from their investment in SGASC. Condensed financial information for SGASC is as follows:

Summary of Balance Sheet	
Assets	
Current Assets	$ 559,450
Noncurrent Assets	309,949
Total Assets	$ 869,399
Liabilities and Members' Equity	
Current Liabilities	$ 81,061
Members' Equity	788,338
Total Liabilities and Members' Equity	$ 869,399
Summary of Income Statement	
Net Revenues	$ 2,635,466
Operating Loss	$ (202,359)
Net Loss	$ (3,919,429)

The carrying value of CS, LLC's investment at December 31, 2017 approximates CS, LLC's underlying equity in the net assets of SGASC.

HMG ASC, LLC owns 30 units (30%) of Holston Valley Ambulatory Surgery Center, LLC (HVASC). The investment is accounted for using the equity method. HMG ASC, LLC's sole income is from their investment in HVASC. Condensed financial information for HVASC is as follows:

Summary of Balance Sheet	
Assets	
Current Assets	$ 2,269,680
Noncurrent Assets	1,047,901
Total Assets	$ 3,317,581
Liabilities and Members' Equity	
Current Liabilities	$ 279,902
Noncurrent Liabilities	351,780
Members' Equity	2,685,899
Total Liabilities and Members' Equity	$ 3,317,581

NOTE 4 - INVESTMENTS (CONTINUED)

Summary of Income Statement	
Net Revenues	$ 8,666,359
Operating Income	$ 1,460,222
Net Income	$ 1,413,750

The carrying value of HMG ASC, LLC's investment at December 31, 2017 approximates HMG ASC, LLC's underlying equity in the net assets of HVASC.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31, 2017:

Land	$ 662,500
Construction in Progress	5,463
Building and Building Improvements	8,468,205
Leasehold Improvements	2,979,260
Furniture and Fixtures	4,714,582
Major Moveable Equipment	3,544,784
Minor Equipment	260,122
Information Services Equipment	9,654,459
Other Equipment	7,253,198
Vehicles	129,470
Total	37,672,043
Less: Accumulated Depreciation	(20,357,250)
Net Property and Equipment	$ 17,314,793
Depreciation Expense	$ 2,138,365

NOTE 6 - INTANGIBLES

Service Agreements

During the year ended December 31, 2000, HMG MM, LLC purchased management rights for 20 years from HMG, PC for $3,500,000 and an additional $3,000,000 during the year ended December 31, 2002. These service contracts are being amortized over 20 years using the straight-line method. These amounts have been eliminated for the purposes of presentation in the combined financial statements.

NOTE 6 - INTANGIBLES (CONTINUED)

Goodwill

Goodwill totaling $2,101,525 was acquired by HMG MM, LLC during 2005. In accordance with the FASB ASC, an accounting alternative was implemented in 2013 which allows an entity to amortize goodwill on a straight-line basis over a maximum of 10 years. This election was applied prospectively at the reporting level, and the Company made an accounting policy election to test goodwill for impairment at the entity level whenever a triggering event occurs, instead of annually, or more frequently, based on current U.S. GAAP. As a result, no triggering events occurred for the year ended December 31, 2017 by which impairment testing was required.

Balances at December 31, 2017 were as follows:

Goodwill	$ 2,101,525
Less: Accumulated Amortization	(1,050,762)
Net Goodwill	$ 1,050,763

Amortization expense taken on goodwill for the year ended December 31, 2017 totaled $210,152.

Future annual amortization of goodwill for the years subsequent to December 31, 2017 is as follows:

2018	$ 210,153
2019	210,152
2020	210,153
2021	210,153
2022	210,152
	$ 1,050,763

NOTE 7 - RELATED PARTY TRANSACTIONS

HMG MM, LLC has a management services agreement to provide accounting and oversight as well as leased employees for HVASC and SGASC. Leased employee services are comprised of salaries and wages and employee benefits. For the year ended December 31, 2017, HMG MM, LLC received management fees and leased employee service revenue of $461,000 and $1,923,929, respectively, from HVASC, and $324,000 and $802,137, respectively, from SGASC.

During the year ended December 31, 2017, HMG, PC paid rent and other service fees of $36,303 to one other related party other than a related company, as defined in Note 1.

NOTE 8 - INTRA-ENTITY TRANSACTIONS

As of December 31, 2017, the following were intra-entity Due To / From balances:

	Due From						
Due To	HMG MM, LLC	CS, LLC	HMG ASC, LLC	APS Operations, LLC	APS HP, LLC	OP, LLC	Total
HMG, PC	$ 4,849,513	243,292	-	100,000	-	1,192,066	6,384,871
HMG MM, LLC	-	128,957	1,005	-	-	-	129,962
APS Operations, LLC	-	-	-	-	90,000	-	90,000
Total	$ 4,849,513	372,249	1,005	100,000	90,000	1,192,066	6,604,833

The companies assess interest on these outstanding Due To and Due From balances on a monthly basis at 6.50%. For the year ended December 31, 2017, total net interest of $420,182 was earned or expensed.

HMG, PC paid ATAC service fees to OP, LLC during the year ended December 31, 2017 in the amount of $1,778,080. Of this amount, $319,155 was accounts payable to OP, LLC by HMG, PC at December 31, 2017, with the reverse being an account receivable by OP, LLC from HMG, PC.

Rent, management fee, and leased employee transactions between the companies are as follows for the year ended December 31, 2017:

HMG, PC paid rent to HMG MP, GP during the year ended December 31, 2017 in the amount of $235,500.

HMG, PC paid rent to HMG REP, GP during the year ended December 31, 2017 in the amount of $74,484.

HMG, PC received leased employee revenues in the amount of $2,453,207 from HMG MM, LLC during the year ended December 31, 2017.

HMG, PC received contract revenue from APS Operations, LLC in the amount of $100,000 during the year ended December 31, 2017.

HMG MM, LLC received management fees in the amounts of $1,110,630, $3,724, $12,000, $59,083, and $13,250, from HMG, PC; HMG REP, GP; CS, LLC; HMG ASC, LLC; and OP, LLC; respectively, during the year ended December 31, 2017.

APS HP, LLC paid for purchased services from APS Operations, LLC in the amount of $100,000 during the year ended December 31, 2017.

NOTE 9 - LINE OF CREDIT

A line of credit held by HMG, PC has a maximum limit of $8,500,000 and a maturity of January 2018. The line of credit has an interest rate equal to the New York prime rate with a floor of 4.00%. The loan is secured by accounts receivable, general intangibles, and guarantees by the shareholders of HMG MM, LLC. Interest is payable monthly with the principal due upon maturity. As of December 31, 2017, the balance drawn is $2,443,809, with an interest rate of 4.50%. Interest expense for the year ended December 31, 2017 is $227,818. Subsequent to year end, HMG, PC renewed this line of credit with the same financial institution, and under the same terms, for an extended maturity date of February 2019. As a result, this debt is shown as noncurrent on the Combined Balance Sheet. In connection with this obligation, HMG, PC has agreed, among other restrictions, to maintain a certain debt service coverage ratio. At December 31, 2017, HMG, PC is compliant with the debt covenant.

NOTE 10 - NOTES PAYABLE

The Company has several notes payable to members for the repurchase of their ownership interests in HMG, PC and Related Companies. The interest rates range from 3.75% to 4.50% and maturity dates range from April 2018 to December 2021. The total payable to members as of December 31, 2017 is $1,160,991.

In January 2013, HMG, PC entered a lease agreement as the tenant whereby their landlord agreed to loan an "additional advance" not to exceed $127,889 toward the total hard and soft costs incurred by the tenant to renovate and make additional improvements to the leased space. The loan has a fixed interest rate of 7.50% and a maturity date of March 2021. Principal and interest are payable monthly. The loan balance as of December 31, 2017 is $59,928.

HMG, PC has three group recruitment agreements with a local nonprofit hospital (the hospital) whereby the hospital advanced the Company $125,000 to cover any costs related to the recruitment of specific providers. Principal and interest are due in 24 equal monthly installments at the Wall Street Journal prime rate plus one percentage point on the starting date of the agreements, which ranged from 4.50% to 5.25% at December 31, 2017. These advances are secured by the accounts receivable of HMG, PC up to the outstanding principal balance of the loans. For each month that the providers meet certain criteria, as outlined in the agreements, the hospital will forgive the amount owed to it in that monthly installment and release the Company from any repayment obligation for that installment. For the year ended December 31, 2017, the hospital forgave a total of $112,437, resulting in a total loan balance of $237,140 at December 31, 2017.

In July 2017, HMG, PC entered into an asset purchase agreement for a medical practice in Bristol, Tennessee for $120,000. This amount is to be paid to the seller in equal installments over a twelve month period, with no interest assessment. At December 31, 2017, the outstanding balance is $70,000.

In November 2017, HMG, PC accepted the assignment of a loan agreement associated with the purchase of a building in the amount of $1,049,832 with an interest rate of 4.09%. This loan matures October 2031 and is secured by the building. Principal and interest are payable monthly. The balance of the loan as of December 31, 2017 is $1,045,233.

NOTE 10 - NOTES PAYABLE (CONTINUED)

In November 2017, HMG, PC accepted the assignment of a loan agreement associated with the purchase of a building in the amount of $1,159,325 with an interest rate of 4.09%. This loan matures November 2030 and is secured by the building. Principal and interest are payable monthly. The balance of the loan as of December 31, 2017 is $1,153,455.

In May 2009, OP, LLC entered into a promissory note for the amount of $6,312,800. Principal and interest of 6.75% were payable monthly with a balloon payment at maturity. The note was secured by a deed of trust, assignment of rents and leases, and member guaranties. In May 2014, the term of the note was extended to August 2014, at which time, the outstanding balance of $5,358,028 was refinanced to mature in August 2019. Principal and interest of 5.50% are payable monthly with a balloon payment at maturity. The note is secured by a deed of trust, assignment of rents and leases, and member guarantees. As of December 31, 2017, the balance is $4,817,659.

In January 2016, OP, LLC entered into a convertible secured promissory note for an aggregate amount of $2,000,000, taken in advances of not less than $500,000 each, with an interest rate of 4.00%. The note is secured by substantially all assets of OP, LLC. Principal and accrued interest are due at maturity, in January 2021, unless this note has been converted or accelerated. These conversion rights are included in a warrant included in the promissory note, which has an immaterial value stated in the agreement, and thus, is not separately reported from the value of the promissory note at December 31, 2017. The warrant allows that in the event that OP, LLC undertakes other qualified equity financing before the maturity date of the promissory note, the outstanding balance of the note automatically converts to ownership units in OP, LLC. The conversion price for those units will be the lowest of (a) 80.00% of the price per unit paid by other purchasers with cash, and (b) a price per unit capped at an amount reflecting a pre-money valuation of OP, LLC of the then applicable investor conversion amount on a fully diluted basis. Otherwise, the investor may exercise their right to accelerate a conversion event at a conversion price outlined in the agreement, as based upon the exercise date. At December 31, 2017, $1,000,000 had been advanced on the promissory note and was outstanding, and no conversions had been required or accelerated.

Interest expense on notes payable for the year ended December 31, 2017 is $346,953, of which $7,135 is amortization on related loan issuance costs.

Principal maturities for the notes payable for years subsequent to December 31, 2017 are as follows:

2018	$ 939,543
2019	5,228,663
2020	524,493
2021	1,171,062
2022	159,160
Thereafter	1,521,485
	9,544,406
Less: Unamortized Loan Issuance Costs	(68,734)
	$ 9,475,672

NOTE 10 - NOTES PAYABLE (CONTINUED)

HMG, PC has a letter of credit in the amount of $150,250 which has not been drawn upon for the year ended December 31, 2017. This letter matures in May 2018.

NOTE 11 - CAPITAL LEASES PAYABLE

HMG, PC leases various types of medical and technological equipment that are accounted for as capital leases expiring in various years through 2023. The assets and liabilities under capital leases are recorded as the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are amortized over their estimated productive lives. Amortization of assets under capital leases is included in depreciation expense for the year ended December 31, 2017.

The future minimum lease payments under the capital leases for years subsequent to December 31, 2017 are as follows:

2018	$ 1,392,451
2019	1,366,733
2020	1,131,369
2021	1,019,681
2022	788,478
Thereafter	446,881
	6,145,593
Less: Amount Representing Interest	(518,488)
Present Value of Minimum Lease Payments	$ 5,627,105

Interest expense on capital leases payable for the year ended December 31, 2017 is $96,173.

These future obligations are reported in the Combined Balance Sheet at December 31, 2017 as follows:

Current Maturities	$ 1,167,505
Noncurrent Maturities	4,459,600
	$ 5,627,105

The following is an analysis of leased assets included in property and equipment at December 31, 2017:

Equipment	$ 7,252,933
Less: Accumulated Amortization	(1,696,310)
	$ 5,556,623

NOTE 12 - DEFERRED REVENUE

During the year ended December 31, 2000, HMG, PC received $3,500,000 from HMG MM, LLC for the right to provide management services for a period of 20 years and received an additional $3,000,000 during the year ended December 31, 2002. The $6,500,000 is recorded as deferred revenue and is being amortized over 20 years. Revenue recognized for the year ended December 31, 2017 is $325,000. These amounts have been eliminated for purposes of presentation in the combined financial statements.

In June 2013, HMG, PC received a $4,200,000 bonus payment in conjunction with a Group Participation Agreement with Humana (the Agreement). The bonus payment was paid based upon certain criteria, including fulfillment of certain participation benchmarks, as defined within the Agreement. Revenue is recognized on a straight-line basis over seven years, parallel to the term of the Agreement, from January 2014 to December 2020. Therefore, at December 31, 2017, deferred revenue related to this Agreement is $1,800,000, with $600,000 of revenue recognized for the year ended December 31, 2017.

NOTE 13 - PATIENT SERVICE REVENUE

Patient service revenue consists of the following at December 31, 2017:

Professional Services Revenue	$ 113,674,933
Ancillary Services Revenue	57,610,837
Less: Contractual Adjustments	(82,490,358)
Net Patient Service Revenue	$ 88,795,412

Patient service revenue, net of contractual adjustments (but before the provision for bad debts), recognized during the year ended December 31, 2017 by major payor sources is as follows:

	Third-Party Payors	Self-Pay	Total
Patient Service Revenue, Net of Contractual Adjustments	$ 87,383,753	1,411,659	88,795,412

NOTE 14 - CHARITY CARE

The amount of expense incurred for services and supplies furnished under HMG, PC's charity care policy amounted to approximately $50,763 for the year ended December 31, 2017.

NOTE 15 - SELF-INSURANCE PROGRAM

Effective January 1, 2010, health insurance for employees has been provided through a self-funded insurance program administered by BlueCross BlueShield of Tennessee, Inc. The Company offers its employees a choice of a Preferred Provider Organization (PPO) plan, or two other high-deductible health plans. Premiums are evaluated annually based on historical expenditures and expected cost increase trends. The Company carries stop-loss insurance through HM Life Insurance Company, which includes medical and prescription drug service per specific covered employee up to $75,000, and with an aggregate specific deductible of $130,000. The Company's estimate of claims accrued at December 31, 2017 includes 60 days based on the average actual claims paid within the last six months. This accrual is termed Health Insurance Claims Payable on the Combined Balance Sheet.

NOTE 16 - MEDICAL MALPRACTICE CLAIMS

HMG, PC purchases professional and general liability insurance to cover medical malpractice claims. There are known claims as well as potential claims from unknown incidents that may be asserted arising from services provided to patients. Management is of the opinion that any potential losses related to such claims would be covered by insurance. Therefore no estimated losses have been accrued at December 31, 2017.

NOTE 17 - OPERATING LEASES

HMG, PC leases certain buildings and equipment for physician and administrative offices under long-term leases. The leases are for various terms through March 2036. During the year ended December 31, 2017, rentals under long-term lease obligations were $9,231,404. Of this amount, $309,984 was paid to related company lessors and an additional $61,000 was paid to related party lessors.

Future obligations over the primary terms of the long-term leases as of December 31, 2017 are as follows:

2018	$ 10,405,748
2019	10,183,280
2020	8,898,450
2021	6,844,640
2022	6,230,402
Thereafter	78,393,968
	$ 120,956,488

Of the future obligations above, $588,424 is due to a related company lessor.

NOTE 18 - RETIREMENT PLAN

The Holston Medical Group Retirement Plan is a defined contribution retirement plan that is administered by Newport Group. Employees are 100% vested after six years of service. A 401(k) pre-tax salary withholding option is available immediately after employment. In accordance with the Plan, a limited number of employees are eligible for employer base contributions of 3.00% after 12 months of uninterrupted service, with an employer match of up to 6.00%, including the aforementioned 3.00% base. The majority of employees are eligible for an employer match of up to 3.00% based on their contribution of 6.00% after 12 months of uninterrupted service. For the year ended December 31, 2017, employer matching contributions were 3.00%. Plan costs for the year ended December 31, 2017 were $79,642.

NOTE 19 - INCOME TAXES

HMG, PC is a C-Corporation and pays federal and state taxes. HMG MP, GP; HMG REP, GP; and MPI, GP do not incur income taxes; instead, the earnings of each are included in the respective members' personal income tax returns and taxed depending on their personal tax situations. HMG MM, LLC; CS, LLC; HMG ASC, LLC; OP, LLC; APS HP, LLC; and APS Operations, LLC are taxed as partnerships and pay only state taxes at the entity level. The combined financial statements, therefore, do not include a provision for income taxes for these companies.

The provision for income taxes consists of the following as of December 31, 2017:

Deferred:	
Federal	$ (1,953,185)
State	(390,518)
Provision for Income Taxes Charged to Operations	$ (2,343,703)

The deferred taxes in the Combined Balance Sheet include the following components:

Noncurrent:	
HMG, PC	
Deferred Tax Asset - Federal	$ 2,049,258
Deferred Tax Liability - Federal	(5,559,968)
Net Noncurrent Deferred Tax Liability - Federal	(3,510,710)
Deferred Tax Asset - State	844,375
Deferred Tax Liability - State	(1,487,263)
Net Noncurrent Deferred Tax Liability - State	(642,888)
Total HMG, PC Noncurrent Deferred Tax Liability	(4,153,598)

NOTE 19 - INCOME TAXES (CONTINUED)

HMG MM, LLC	
Deferred Tax Liability - State	(81,200)

These deferred taxes are reflected on the Combined Balance Sheet as follows:

Combined Deferred Tax Liability - Federal - Noncurrent	$ (3,510,710)
Combined Deferred Tax Liability - State - Noncurrent	$ (724,088)

Deferred taxes are recognized for temporary differences between the basis of assets and liabilities for financial statement and income tax purposes. The differences relate primarily to net operating loss carryforwards, accounts receivable, the allowance for doubtful accounts (deductible for financial statement purposes, but not for income tax purposes) and amortization of management agreement over 20 years for book purposes and was fully includable in taxable income during the year payment was received.

These deferred taxes are calculated at December 31, 2017 based on provisions in the TCJA that are estimated to have certain effects based on current available guidance and interpretation. The Company remeasured certain deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21% under the TCJA. The Company is still analyzing certain aspects of the TCJA, considering additional technical guidance, and refining its calculations, which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts. While the Company was able to make a reasonable estimate of these impacts, it may be affected by other analyses related to the TCJA. The provisional amounts recorded at December 31, 2017 related to federal deferred tax assets and liabilities resulted in an additional benefit of income taxes on the Combined Statement of Income of $2,340,473.

The provision for income taxes differs from applying the statutory U.S. federal income tax rate to income before provision for income taxes. The primary differences result from providing for state income taxes and from using the modified accrual basis of accounting for income tax purposes.

At December 31, 2017, HMG, PC has a federal net operating loss of $382,623 which begins to expire in the year 2035. The following companies also have state net operating loss carryforwards at December 31, 2017: HMG, PC - $2,971,746 (begins to expire in the year 2030); CS, LLC - $399,958 (begins to expire in the year 2022); HMG ASC, LLC - $780,567 (begins to expire in the year 2021); and OP, LLC - $405,409 (begins to expire in the year 2026).

NOTE 20 - MEMBERS' EQUITY (DEFICIT)

Members' equity reflects a deficit balance at year end for HMG MM, LLC; CS, LLC; and OP, LLC. The property and equipment in the combined financial statements are presented at acquisition cost less accumulated depreciation (net book value). The fair market value of these assets significantly exceeds the net book value.

NOTE 21 - UNCERTAIN TAX POSITIONS

HMG, PC files income tax returns in the U.S. federal jurisdiction and State of Tennessee. HMG MM, LLC; CS, LLC; HMG ASC; APS HP, LLC and APS Operations, LLC file income tax returns in the State of Tennessee. OP, LLC files tax returns in the Commonwealth of Virginia.

The Company did not have unrecognized tax liabilities as of December 31, 2017 and does not expect this to change significantly over the next 12 months. In accordance with FASB ASC guidance, the Company will recognize interest and penalties accrued on any unrecognized tax liabilities as a component of income tax expense. As of December 31, 2017, the Company has not accrued interest or penalties related to uncertain tax positions.

NOTE 22 - ACCOUNTING STANDARDS UPDATES

In May 2014, the FASB issued *Accounting Standards Update* (ASU) 2014-09, *Revenue from Contracts with Customers*. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of the financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. This standard will be effective for the calendar year ending December 31, 2019. The Company is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as of right-of-use asset and lease liability on the balance sheet at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the income statement. This standard will be effective for the calendar year ending December 31, 2020. The Company is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses*. The standard requires a financial asset (including trade receivables) measured at amortized cost basis to be presented at the net amount expected to be collected. Thus, the income statement will reflect the measurement of credit losses for newly-recognized financial assets as well as the expected increases or decreases of expected credit losses that have taken place during the period. This standard will be effective for the calendar year ending December 31, 2021. The Company is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

SUPPLEMENTARY

INFORMATION

HOLSTON MEDICAL GROUP, PC AND RELATED COMPANIES
COMPARATIVE COMBINED BALANCE SHEETS
December 31, 2017, 2016 and 2015

	2017	2016	2015
ASSETS			
CURRENT ASSETS			
Cash	$ 742,311	1,212,911	243,595
Restricted Cash	302,000	702,000	897,000
Prepaid Expenses	518,456	556,416	556,003
Accounts Receivable - Patients, Net of Allowance	10,128,621	10,292,996	10,042,371
Current Portion of Accounts Receivable - Medical Home	9,167,066	7,008,762	2,619,695
Accounts Receivable - Other	653,867	680,657	387,279
Due from Related Parties	50,895	24,426	4,645
Inventory	309,925	190,488	816,114
Current Maturities of Notes Receivable	38,732	60,676	29,278
Total Current Assets	21,911,873	20,729,332	15,595,980
PROPERTY AND EQUIPMENT			
Land	662,500	662,500	1,913,028
Construction in Progress	5,463	-	190,854
Depreciable Property and Equipment, Net of Accumulated Depreciation	16,646,830	12,490,323	51,052,394
Net Property and Equipment	17,314,793	13,152,823	53,156,276
OTHER ASSETS			
Investment in Highlands Physicians PHO	184,035	178,035	178,035
Investment in MMAC MedPlaza Kingsport, LLC	1,600,000	1,600,000	-
Investment in Sapling Grove Ambulatory Surgery Center, LLC	23,530	1,003,387	1,107,743
Investment in Holston Valley Ambulatory Surgery Center, LLC	753,095	828,470	704,225
Investment in Qualuable Medical Professionals, LLC	-	-	709
Participation Agreement	-	-	1,000,000
Notes Receivable, Net of Current Maturities	97,960	101,930	51,938
Accounts Receivable - Medical Home, Net of Current Portion	2,842,253	-	-
Tithes Receivable from Related Party	-	65,785	-
Goodwill, Net of Accumulated Amortization	1,050,763	1,260,915	1,471,068
Net Deferred Tax Asset - Federal	-	-	1,047,317
Net Deferred Tax Asset - State	-	-	115,913
Total Other Assets	6,551,636	5,038,522	5,676,948
TOTAL ASSETS	$ 45,778,302	38,920,677	74,429,204

(Continued)

HOLSTON MEDICAL GROUP, PC AND RELATED COMPANIES
COMPARATIVE COMBINED BALANCE SHEETS
December 31, 2017, 2016 and 2015

	2017	2016	2015
LIABILITIES AND EQUITY (DEFICIT)			
LIABILITIES			
CURRENT LIABILITIES			
Bank Overdraft	$ 178,400	-	319,606
Accounts Payable	3,879,362	4,481,614	5,829,112
Health Insurance Claims Payable	616,924	465,566	515,363
Patient Credit Balances Due	1,131,172	1,631,941	1,408,602
Due to Related Parties	-	24,066	81,183
Accrued Wages and Payroll Liabilities	2,378,491	2,248,748	2,180,801
Accrued Interest	43,491	55,588	135,126
Accrued Taxes	55,071	49,724	8,752
Other Accrued Liabilities	23,322	63,603	648,778
Current Portion of Deferred Revenue	600,000	600,000	600,000
Current Maturities of Line of Credit	-	6,416,381	8,353,133
Current Maturities of Notes Payable	939,543	615,080	7,475,565
Current Maturities of Capital Leases Payable	1,167,505	579,267	85,441
Total Current Liabilities	11,013,281	17,231,578	27,641,462
LONG-TERM LIABILITIES			
Line of Credit, Net of Current Maturities	2,443,809	-	-
Deferred Revenue, Net of Current Portion	1,200,000	1,800,000	2,400,000
Right of First Refusal	-	-	1,512,000
Notes Payable, Net of Current Maturities and Unamortized Loan Issuance Costs	8,536,129	6,944,091	38,029,638
Interest Rate Swap	-	-	7,964,827
Capital Leases Payable, Net of Current Maturities	4,459,600	2,948,728	49,386
Net Deferred Tax Liability - Federal	3,510,710	1,557,525	-
Net Deferred Tax Liability - State	724,088	333,570	-
Total Long-Term Liabilities	20,874,336	13,583,914	49,955,851
TOTAL LIABILITIES	31,887,617	30,815,492	77,597,313
EQUITY (DEFICIT)			
Controlling Interests			
Common Stock, $10 Par Value, 100,000 Shares Authorized, and 500 Shares Issued and Outstanding	5,000	5,000	5,000
Paid-In Capital	5,554,562	5,429,562	4,129,562
Retained Earnings	11,737,825	4,870,691	2,692,908
Members' Equity (Deficit)	(274,116)	919,592	(5,543,863)
Less: Noncontrolling Interest	(3,132,586)	(3,119,660)	(4,451,716)
TOTAL EQUITY (DEFICIT)	13,890,685	8,105,185	(3,168,109)
TOTAL LIABILITIES AND EQUITY (DEFICIT)	$ 45,778,302	38,920,677	74,429,204

See Independent Auditors' Report.

HOLSTON MEDICAL GROUP, PC AND RELATED COMPANIES
COMPARATIVE COMBINED SCHEDULES OF INCOME
For the Years Ended December 31, 2017, 2016 and 2015

	2017	2016	2015
REVENUE			
Professional and Ancillary Services,			
Net of Contractual Adjustments	$ 88,795,412	80,634,429	80,186,454
Less: Provision for Bad Debts	(2,294,240)	(2,469,597)	(2,051,592)
Net Patient Service Revenue	86,501,172	78,164,832	78,134,862
Medical Home Revenues	20,008,573	12,051,849	6,952,117
Management Fees	876,447	867,290	869,794
Rental Income	58,840	393,252	1,178,337
ATAC Income	283,932	326,541	444,436
AllNet Revenue	458,900	-	-
Health Information Exchange Revenue	1,658,571	1,711,680	1,007,054
Leased Employee Revenue	2,726,066	3,105,208	3,314,539
Clinical Research	1,842,942	1,910,709	1,973,147
Investment Income (Loss)	(351,502)	587,804	59,569
Grant Revenue	71,148	194,751	480,586
Pre-Participation Agreement Revenue	100,000	-	-
Other Revenue	587,163	681,344	1,085,126
TOTAL REVENUE	114,822,252	99,995,260	95,499,567
OPERATING EXPENSES			
Salaries and Wages	55,349,198	47,975,608	47,002,246
Leased Employee Salaries and Wages	2,453,207	2,789,738	3,031,210
Employee Benefits	7,416,898	6,237,860	6,632,697
Bad Debts	-	-	110
Bank Charges	346,090	426,803	371,660
Books and Subscriptions	11,685	9,103	14,677
Business Taxes	337,429	321,124	369,828
Cell Phone	151,948	143,767	145,833
Clinical Research Expenses	143,642	129,755	160,459
Continuing Education	52,851	111,738	54,906
Contributions	250	9,683	100
Depreciation and Amortization	2,348,517	1,997,346	3,462,969
Dues and Licenses	11,931	20,693	87,471
Employee Recognition and Events	1,797	-	62,457
Employee Wellness Program	19,500	19,500	17,000
Groundskeeping Services	121,411	93,684	100,246
Housekeeping Services	508,090	450,257	470,592
Insurance and Other Costs	1,215,133	1,128,716	1,154,017
Laboratory Supplies	478,607	370,680	401,034
Laundry Expense	95,130	82,970	74,828
License and Inspection	46,151	48,139	37,213
Management Consulting Fees	-	84	23,842
Marketing	382,141	201,847	197,672
Meals and Entertainment	2,975	1,714	828
Miscellaneous	4,688	565	171,815
Non-Physician Recruitment	1,160	1,875	1,670
Office Expense	-	-	416

(Continued)

HOLSTON MEDICAL GROUP, PC AND RELATED COMPANIES
COMPARATIVE COMBINED SCHEDULES OF INCOME
For the Years Ended December 31, 2017, 2016 and 2015

	2017	2016	2015
OPERATING EXPENSES (CONTINUED)			
Physician Recruitment	37,866	75,102	160,346
Postage and Shipping	175,439	186,536	160,732
Professional Services	268,655	872,505	368,268
Property Taxes	1,178,828	1,068,875	930,823
Purchased Services	7,662,740	6,599,426	6,429,758
Radiology Supplies	204,588	205,386	221,719
Rental Expense	11,103,501	9,718,453	6,395,453
Repairs and Maintenance	3,606,723	3,502,096	3,541,363
Supplies	7,958,409	7,652,678	7,069,383
Travel Expenses	168,831	137,046	173,584
Utilities	2,219,094	2,125,617	2,180,128
TOTAL OPERATING EXPENSES	106,085,103	94,716,969	91,679,353
OPERATING INCOME	8,737,149	5,278,291	3,820,214
OTHER INCOME (EXPENSE)			
Gain on Loan Forgiveness	-	1,298,606	-
Gain (Loss) on Sale of Property and Equipment	(16,104)	17,508,565	1,698,981
Income Tax Refund	1,209,424	743,053	-
Loss on Disposal of Investments	-	(197,765)	-
Loss on Impairment of Goodwill	-	-	(150,051)
Right of First Refusal	-	1,512,000	-
Interest Earned	6,825	110,788	70,896
Interest Expense	(670,944)	(1,934,383)	(3,854,152)
TOTAL OTHER INCOME (EXPENSE)	529,201	19,040,864	(2,234,326)
INCOME BEFORE (PROVISION FOR) BENEFIT OF INCOME TAXES	9,266,350	24,319,155	1,585,888
(PROVISION FOR) BENEFIT OF INCOME TAXES	(2,343,703)	(3,054,325)	484,133
NET INCOME	6,922,647	21,264,830	2,070,021
LESS: NONCONTROLLING INTEREST	(150,386)	(1,331,957)	377,797
CONTROLLING INTEREST	$ 6,772,261	19,932,873	2,447,818

See Independent Auditors' Report.

HOLSTON MEDICAL GROUP, PC AND RELATED COMPANIES
COMBINING BALANCE SHEET
December 31, 2017

	HMG, PC and Subsidiaries	HMG MM, LLC	HMG REP, GP	CS, LLC	HMG ASC, LLC	HMG MP, GP	MPI, GP	Total	Intra-Entity Eliminations	Combined Total
ASSETS										
CURRENT ASSETS										
Cash	$ 358,482	3,866	368,643	820	10,238	-	262	742,311	-	742,311
Restricted Cash	302,000	-	-	-	-	-	-	302,000	-	302,000
Prepaid Expenses	518,456	-	-	-	-	-	-	518,456	-	518,456
Accounts Receivable - Patients, Net of Allowance	10,128,621	-	-	-	-	-	-	10,128,621	-	10,128,621
Current Portion of Accounts Receivable - Medical Home	9,167,066	-	-	-	-	-	-	9,167,066	-	9,167,066
Accounts Receivable - Other	652,667	-	1,200	-	-	-	-	653,867	-	653,867
Due from Related Companies	5,092,805	129,962	-	-	-	-	-	5,222,767	(5,222,767)	-
Due from Related Parties	26,517	24,378	-	-	-	-	-	50,895	-	50,895
Inventory	309,925	-	-	-	-	-	-	309,925	-	309,925
Current Maturities of Notes Receivable	38,732	-	-	-	-	-	-	38,732	-	38,732
Total Current Assets	26,595,271	158,206	369,843	820	10,238	0	262	27,134,640	(5,222,767)	21,911,873
PROPERTY AND EQUIPMENT										
Land	662,500	-	-	-	-	-	-	662,500	-	662,500
Construction in Progress	5,463	-	-	-	-	-	-	5,463	-	5,463
Depreciable Property and Equipment, Net of Accumulated Depreciation	14,995,018	1,012,966	638,846	-	-	-	-	16,646,830	-	16,646,830
Net Property and Equipment	15,662,981	1,012,966	638,846	0	0	0	0	17,314,793	0	17,314,793
OTHER ASSETS										
Investment in Highlands Physicians PHO	184,035	-	-	-	-	-	-	184,035	-	184,035
Investment in MedPlaza Investments, GP	595,097	-	-	-	-	-	-	595,097	(595,097)	-
Investment in MMAC MedPlaza Kingsport, LLC	-	-	-	-	-	-	1,600,000	1,600,000	-	1,600,000
Investment in Sapling Grove Ambulatory Surgery Center, LLC	-	-	-	23,530	-	-	-	23,530	-	23,530
Investment in Holston Valley Ambulatory Surgery Center, LLC	-	-	-	-	753,095	-	-	753,095	-	753,095
Notes Receivable, Net of Current Maturities	97,960	-	-	-	-	-	-	97,960	-	97,960
Accounts Receivable - Medical Home, Net of Current Portion	2,842,253	-	-	-	-	-	-	2,842,253	-	2,842,253
Service Agreements, Net of Accumulated Amortization	-	1,112,500	-	-	-	-	-	1,112,500	(1,112,500)	-
Goodwill, Net of Accumulated Amortization	-	1,050,763	-	-	-	-	-	1,050,763	-	1,050,763
Total Other Assets	3,719,345	2,163,263	0	23,530	753,095	0	1,600,000	8,259,233	(1,707,597)	6,551,636
TOTAL ASSETS	$ 45,977,597	3,334,435	1,008,689	24,350	763,333	0	1,600,262	52,708,666	(6,930,364)	45,778,302

(Continued)

HOLSTON MEDICAL GROUP, PC AND RELATED COMPANIES
COMBINING BALANCE SHEET
December 31, 2017

	HMG, PC and Subsidiaries	HMG MM, LLC	HMG REP, GP	CS, LLC	HMG ASC, LLC	HMG MP, GP	MPI, GP	Total	Intra-Entity Eliminations	Combined Total
LIABILITIES AND EQUITY (DEFICIT)										
LIABILITIES										
CURRENT LIABILITIES										
Bank Overdraft	$ 178,400	-	-	-	-	-	-	178,400	-	178,400
Accounts Payable	3,876,397	-	-	-	2,965	-	-	3,879,362	-	3,879,362
Health Insurance Claims Payable	616,924	-	-	-	-	-	-	616,924	-	616,924
Patient Credit Balances Due	1,131,172	-	-	-	-	-	-	1,131,172	-	1,131,172
Due to Related Companies	-	4,849,513	-	372,249	1,005	-	-	5,222,767	(5,222,767)	-
Accrued Wages and Payroll Liabilities	2,378,491	-	-	-	-	-	-	2,378,491	-	2,378,491
Accrued Interest	43,491	-	-	-	-	-	-	43,491	-	43,491
Accrued Taxes	50,000	1,350	-	1,679	2,042	-	-	55,071	-	55,071
Other Accrued Liabilities	23,322	-	-	-	-	-	-	23,322	-	23,322
Current Portion of Deferred Revenue	925,000	-	-	-	-	-	-	925,000	(325,000)	600,000
Current Maturities of Notes Payable	917,441	-	-	-	22,102	-	-	939,543	-	939,543
Current Maturities of Capital Leases Payable	1,167,505	-	-	-	-	-	-	1,167,505	-	1,167,505
Total Current Liabilities	11,308,143	4,850,863	0	373,928	28,114	0	0	16,561,048	(5,547,767)	11,013,281
LONG-TERM LIABILITIES										
Line of Credit	2,443,809	-	-	-	-	-	-	2,443,809	-	2,443,809
Deferred Revenue, Net of Current Portion	1,987,500	-	-	-	-	-	-	1,987,500	(787,500)	1,200,000
Notes Payable, Net of Current Maturities and Unamortized Loan Issuance Costs	8,465,311	-	-	-	70,818	-	-	8,536,129	-	8,536,129
Capital Leases Payable, Net of Current Maturities	4,459,600	-	-	-	-	-	-	4,459,600	-	4,459,600
Net Deferred Tax Liability - Federal	3,510,710	-	-	-	-	-	-	3,510,710	-	3,510,710
Net Deferred Tax Liability - State	642,888	81,200	-	-	-	-	-	724,088	-	724,088
Total Long-Term Liabilities	21,509,818	81,200	0	0	70,818	0	0	21,661,836	(787,500)	20,874,336
TOTAL LIABILITIES	32,817,961	4,932,063	0	373,928	98,932	0	0	38,222,884	(6,335,267)	31,887,617
EQUITY (DEFICIT)										
Controlling Interests										
Common Stock, $10 Par Value, 100,000 Shares Authorized, and 500 Shares Issued and Outstanding	5,000	-	-	-	-	-	-	5,000	-	5,000
Paid-In Capital	4,549,562	-	-	-	-	-	1,600,000	6,149,562	(595,000)	5,554,562
Retained Earnings	11,737,825	-	-	-	-	-	-	11,737,825	-	11,737,825
Members' Equity (Deficit)	-	(1,597,628)	1,008,689	(349,578)	664,401	-	-	(274,116)	-	(274,116)
Less: Noncontrolling Interest	(3,132,751)	-	-	-	-	-	262	(3,132,489)	(97)	(3,132,586)
TOTAL EQUITY (DEFICIT)	13,159,636	(1,597,628)	1,008,689	(349,578)	664,401	0	1,600,262	14,485,782	(595,097)	13,890,685
TOTAL LIABILITIES AND EQUITY (DEFICIT)	$ 45,977,597	3,334,435	1,008,689	24,350	763,333	0	1,600,262	52,708,666	(6,930,364)	45,778,302

See Independent Auditors' Report.

HOLSTON MEDICAL GROUP, PC AND RELATED COMPANIES
COMBINING STATEMENT OF INCOME (LOSS)
For the Year Ended December 31, 2017

	HMG, PC and Subsidiaries	HMG MM, LLC	HMG REP, GP	CS, LLC	HMG ASC, LLC	HMG MP, GP	MPI, GP	Total	Intra-Entity Eliminations	Combined Total
REVENUE										
Professional and Ancillary Services,										
Net of Contractual Adjustments	$ 88,795,412	-	-	-	-	-	-	88,795,412	-	88,795,412
Less: Provision for Bad Debts	(2,294,240)	-	-	-	-	-	-	(2,294,240)	-	(2,294,240)
Net Patient Service Revenue	86,501,172	0	0	0	0	0	0	86,501,172	0	86,501,172
Medical Home Revenues	20,008,573	-	-	-	-	-	-	20,008,573	-	20,008,573
Management Fees	-	2,075,134	-	-	-	-	-	2,075,134	(1,198,687)	876,447
Rental Income	-	-	88,884	-	-	279,940	-	368,824	(309,984)	58,840
ATAC Income	283,932	-	-	-	-	-	-	283,932	-	283,932
AllNet Revenue	458,900	-	-	-	-	-	-	458,900	-	458,900
Health Information Exchange Revenue	1,658,571	-	-	-	-	-	-	1,658,571	-	1,658,571
Leased Employee Revenue	3,147,782	2,726,066	-	-	-	-	-	5,873,848	(3,147,782)	2,726,066
Clinical Research	1,842,942	-	-	-	-	-	-	1,842,942	-	1,842,942
Investment Income (Loss)	92,891	-	-	(979,857)	424,125	-	204,230	(258,611)	(92,891)	(351,502)
Grant Revenue	71,148	-	-	-	-	-	-	71,148	-	71,148
Pre-Participation Agreement Revenue	100,000	-	-	-	-	-	-	100,000	-	100,000
Other Revenue	912,163	-	-	-	-	-	-	912,163	(325,000)	587,163
TOTAL REVENUE	115,078,074	4,801,200	88,884	(979,857)	424,125	279,940	204,230	119,896,596	(5,074,344)	114,822,252
OPERATING EXPENSES										
Salaries and Wages	54,745,335	603,863	-	-	-	-	-	55,349,198	-	55,349,198
Leased Employee Salaries and Wages	3,147,782	2,453,207	-	-	-	-	-	5,600,989	(3,147,782)	2,453,207
Employee Benefits	7,059,622	357,276	-	-	-	-	-	7,416,898	-	7,416,898
Bank Charges	345,347	-	623	-	-	-	120	346,090	-	346,090
Books and Subscriptions	11,685	-	-	-	-	-	-	11,685	-	11,685
Business Taxes	333,538	-	-	1,915	1,976	-	-	337,429	-	337,429
Cell Phone	151,948	-	-	-	-	-	-	151,948	-	151,948
Clinical Research Expenses	143,642	-	-	-	-	-	-	143,642	-	143,642
Continuing Education	52,851	-	-	-	-	-	-	52,851	-	52,851
Contributions	250	-	-	-	-	-	-	250	-	250
Depreciation and Amortization	1,870,148	785,985	17,384	-	-	-	-	2,673,517	(325,000)	2,348,517
Dues and Licenses	10,616	600	-	-	715	-	-	11,931	-	11,931
Employee Recognition and Events	1,797	-	-	-	-	-	-	1,797	-	1,797
Employee Wellness Program	19,500	-	-	-	-	-	-	19,500	-	19,500
Groundskeeping Services	121,411	-	-	-	-	-	-	121,411	-	121,411
Housekeeping Services	508,090	-	-	-	-	-	-	508,090	-	508,090
Insurance and Other Costs	1,190,760	24,373	-	-	-	-	-	1,215,133	-	1,215,133
Laboratory Supplies	478,607	-	-	-	-	-	-	478,607	-	478,607
Laundry Expense	95,130	-	-	-	-	-	-	95,130	-	95,130

(Continued)

HOLSTON MEDICAL GROUP, PC AND RELATED COMPANIES
COMBINING STATEMENT OF INCOME (LOSS)
For the Year Ended December 31, 2017

	HMG, PC and Subsidiaries	HMG MM, LLC	HMG REP, GP	CS, LLC	HMG ASC, LLC	HMG MP, GP	MPI, GP	Total	Intra-Entity Eliminations	Combined Total
OPERATING EXPENSES (CONTINUED)										
License and Inspection	46,151	-	-	-	-	-	-	46,151	-	46,151
Management Fees	1,123,880	-	3,724	12,000	59,083	-	-	1,198,687	(1,198,687)	-
Marketing	382,141	-	-	-	-	-	-	382,141	-	382,141
Meals and Entertainment	2,975	-	-	-	-	-	-	2,975	-	2,975
Miscellaneous	4,688	-	-	-	-	-	-	4,688	-	4,688
Non-Physician Recruitment	1,160	-	-	-	-	-	-	1,160	-	1,160
Physician Recruitment	37,866	-	-	-	-	-	-	37,866	-	37,866
Postage and Shipping	175,439	-	-	-	-	-	-	175,439	-	175,439
Professional Services	223,938	17,412	8,613	4,650	5,375	7,715	952	268,655	-	268,655
Property Taxes	1,176,456	2,372	-	-	-	-	-	1,178,828	-	1,178,828
Purchased Services	7,662,740	-	-	-	-	-	-	7,662,740	-	7,662,740
Radiology Supplies	204,588	-	-	-	-	-	-	204,588	-	204,588
Rental Expense	11,413,485	-	-	-	-	-	-	11,413,485	(309,984)	11,103,501
Repairs and Maintenance	3,606,723	-	-	-	-	-	-	3,606,723	-	3,606,723
Supplies	7,958,409	-	-	-	-	-	-	7,958,409	-	7,958,409
Travel Expenses	168,831	-	-	-	-	-	-	168,831	-	168,831
Utilities	2,219,094	-	-	-	-	-	-	2,219,094	-	2,219,094
TOTAL OPERATING EXPENSES	106,696,623	4,245,088	30,344	18,565	67,149	7,715	1,072	111,066,556	(4,981,453)	106,085,103
OPERATING INCOME (LOSS)	8,381,451	556,112	58,540	(998,422)	356,976	272,225	203,158	8,830,040	(92,891)	8,737,149
OTHER INCOME (EXPENSE)										
Loss on Sale of Equipment	(16,104)	-	-	-	-	-	-	(16,104)	-	(16,104)
Income Tax Refund	1,209,424	-	-	-	-	-	-	1,209,424	-	1,209,424
Interest Earned	346,005	8,251	-	-	1,083	-	-	355,339	(348,514)	6,825
Interest Expense	(669,820)	(325,068)	(519)	(22,927)	(1,124)	-	-	(1,019,458)	348,514	(670,944)
TOTAL OTHER INCOME (EXPENSE)	869,505	(316,817)	(519)	(22,927)	(41)	0	0	529,201	0	529,201

(Continued)

HOLSTON MEDICAL GROUP, PC AND RELATED COMPANIES
COMBINING STATEMENT OF INCOME (LOSS)
For the Year Ended December 31, 2017

	HMG, PC and Subsidiaries	HMG MM, LLC	HMG REP, GP	CS, LLC	HMG ASC, LLC	HMG MP, GP	MPI, GP	Total	Intra-Entity Eliminations	Combined Total
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	9,250,956	239,295	58,021	(1,021,349)	356,935	272,225	203,158	9,359,241	(92,891)	9,266,350
PROVISION FOR INCOME TAXES	(2,343,703)	-	-	-	-	-	-	(2,343,703)	-	(2,343,703)
COMBINED NET INCOME (LOSS)	6,907,253	239,295	58,021	(1,021,349)	356,935	272,225	203,158	7,015,538	(92,891)	6,922,647
LESS: NONCONTROLLING INTEREST	(40,119)	-	-	-	-	-	-	(40,119)	(110,267)	(150,386)
CONTROLLING INTEREST	$ 6,867,134	239,295	58,021	(1,021,349)	356,935	272,225	203,158	6,975,419	(203,158)	6,772,261

See Independent Auditors' Report.

HOLSTON MEDICAL GROUP, PC AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
December 31, 2017

	HMG, PC	OP, LLC	APS Operations, LLC and Wholly-Owned Subsidiary	Total	Consolidating Eliminations	Consolidated Total
ASSETS						
CURRENT ASSETS						
Cash	$ 50,950	207,532	100,000	358,482	-	358,482
Restricted Cash	302,000	-	-	302,000	-	302,000
Prepaid Expenses	445,827	72,629	-	518,456	-	518,456
Accounts Receivable - Patients, Net of Allowance	10,128,621	-	-	10,128,621	-	10,128,621
Current Portion of Accounts Receivable - Medical Home	9,167,066	-	-	9,167,066	-	9,167,066
Accounts Receivable - Other	114,590	857,232	-	971,822	(319,155)	652,667
Due from Related Companies	6,384,871	-	-	6,384,871	(1,292,066)	5,092,805
Due from Related Parties	26,517	-	-	26,517	-	26,517
Inventory	304,925	5,000	-	309,925	-	309,925
Current Maturities of Notes Receivable	38,732	-	-	38,732	-	38,732
Total Current Assets	26,964,099	1,142,393	100,000	28,206,492	(1,611,221)	26,595,271
PROPERTY AND EQUIPMENT						
Land	-	662,500	-	662,500	-	662,500
Construction in Progress	5,463	-	-	5,463	-	5,463
Depreciable Property and Equipment, Net of Accumulated Depreciation	10,595,506	4,399,512	-	14,995,018	-	14,995,018
Net Property and Equipment	10,600,969	5,062,012	0	15,662,981	0	15,662,981
OTHER ASSETS						
Investment in Highlands Physicians PHO	184,035	-	-	184,035	-	184,035
Investment in OnePartner, LLC	792,940	-	-	792,940	(792,940)	-
Investment in MedPlaza Investments, GP	595,097	-	-	595,097	-	595,097
Notes Receivable, Net of Current Maturities	97,960	-	-	97,960	-	97,960
Accounts Receivable - Medical Home, Net of Current Portion	2,842,253	-	-	2,842,253	-	2,842,253
Total Other Assets	4,512,285	0	0	4,512,285	(792,940)	3,719,345
TOTAL ASSETS	$ 42,077,353	6,204,405	100,000	48,381,758	(2,404,161)	45,977,597

(Continued)

HOLSTON MEDICAL GROUP, PC AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
December 31, 2017

	HMG, PC	OP, LLC	APS Operations, LLC and Wholly-Owned Subsidiary	Total	Consolidating Eliminations	Consolidated Total
LIABILITIES AND EQUITY (DEFICIT)						
LIABILITIES						
CURRENT LIABILITIES						
Bank Overdraft	$ 178,400	-	-	178,400	-	178,400
Accounts Payable	4,137,275	58,277	-	4,195,552	(319,155)	3,876,397
Health Insurance Claims Payable	616,924	-	-	616,924	-	616,924
Patient Credit Balances Due	1,131,172	-	-	1,131,172	-	1,131,172
Due to Related Companies	-	1,192,066	100,000	1,292,066	(1,292,066)	-
Accrued Wages and Payroll Liabilities	2,306,396	72,095	-	2,378,491	-	2,378,491
Accrued Interest	22,221	21,270	-	43,491	-	43,491
Accrued Taxes	50,000	-	-	50,000	-	50,000
Other Accrued Liabilities	23,322	-	-	23,322	-	23,322
Current Portion of Deferred Revenue	925,000	-	-	925,000	-	925,000
Current Maturities of Notes Payable	732,366	185,075	-	917,441	-	917,441
Current Maturities of Capital Leases Payable	1,167,505	-	-	1,167,505	-	1,167,505
Total Current Liabilities	11,290,581	1,528,783	100,000	12,919,364	(1,611,221)	11,308,143
LONG-TERM LIABILITIES						
Line of Credit	2,443,809	-	-	2,443,809	-	2,443,809
Deferred Revenue, Net of Current Portion	1,987,500	-	-	1,987,500	-	1,987,500
Notes Payable, Net of Current Maturities and Unamortized Loan Issuance Costs	2,876,214	5,589,097	-	8,465,311	-	8,465,311
Capital Leases Payable, Net of Current Maturities	4,459,600	-	-	4,459,600	-	4,459,600
Net Deferred Tax Liability - Federal	3,510,710	-	-	3,510,710	-	3,510,710
Net Deferred Tax Liability - State	642,888	-	-	642,888	-	642,888
Total Long-Term Liabilities	15,920,721	5,589,097	0	21,509,818	0	21,509,818
TOTAL LIABILITIES	27,211,302	7,117,880	100,000	34,429,182	(1,611,221)	32,817,961
EQUITY (DEFICIT)						
Controlling Interest						
Common Stock, $10 Par Value, 100,000 Shares Authorized and 500 Shares Issued and Outstanding	5,000	-	-	5,000	-	5,000
Paid-In Capital	3,123,226	4,595,349	-	7,718,575	(3,169,013)	4,549,562
Retained Earnings	11,737,825	-	-	11,737,825	-	11,737,825
Less: Noncontrolling Interest	-	(5,508,824)	-	(5,508,824)	2,376,073	(3,132,751)
TOTAL EQUITY (DEFICIT)	14,866,051	(913,475)	0	13,952,576	(792,940)	13,159,636
TOTAL LIABILITIES AND EQUITY (DEFICIT)	$ 42,077,353	6,204,405	100,000	48,381,758	(2,404,161)	45,977,597

See Independent Auditors' Report.

HOLSTON MEDICAL GROUP, PC AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF INCOME
For the Year Ended December 31, 2017

	HMG, PC	OP, LLC	APS Operations, LLC and Wholly-Owned Subsidiary	Total	Consolidating Eliminations	Consolidated Total
REVENUE						
Professional and Ancillary Services,						
Net of Contractual Adjustments	$ 88,795,412	-	-	88,795,412	-	88,795,412
Less: Provision for Bad Debts	(2,294,240)	-	-	(2,294,240)	-	(2,294,240)
Net Patient Service Revenue	86,501,172	0	0	86,501,172	0	86,501,172
Medical Home Revenues	20,008,573	-	-	20,008,573	-	20,008,573
ATAC Income	-	2,062,012	-	2,062,012	(1,778,080)	283,932
AllNet Revenue	-	458,900	-	458,900		458,900
Health Information Exchange Revenue	-	1,658,571	-	1,658,571	-	1,658,571
Leased Employee Revenue	3,147,782	-	-	3,147,782	-	3,147,782
Clinical Research	1,842,942	-	-	1,842,942	-	1,842,942
Investment Income	140,369	-	-	140,369	(47,478)	92,891
Grant Revenue	71,148	-	-	71,148	-	71,148
Pre-Participation Agreement Revenue	-	-	100,000	100,000	-	100,000
Other Revenue	1,010,355	1,808	-	1,012,163	(100,000)	912,163
TOTAL REVENUE	112,722,341	4,181,291	100,000	117,003,632	(1,925,558)	115,078,074
OPERATING EXPENSES						
Salaries and Wages	52,416,884	2,328,451	-	54,745,335	-	54,745,335
Leased Employee Salaries and Wages	3,147,782	-	-	3,147,782	-	3,147,782
Employee Benefits	6,820,529	239,093	-	7,059,622	-	7,059,622
Bank Charges	345,337	10	-	345,347	-	345,347
Books and Subscriptions	11,685	-	-	11,685	-	11,685
Business Taxes	261,153	72,385	-	333,538	-	333,538
Cell Phone	115,248	36,700	-	151,948	-	151,948
Clinical Research Expenses	143,642	-	-	143,642	-	143,642
Continuing Education	52,851	-	-	52,851	-	52,851
Contributions	250	-	-	250	-	250
Depreciation	1,633,773	236,375	-	1,870,148	-	1,870,148
Dues and Licenses	7,431	3,185	-	10,616	-	10,616
Employee Recognition and Events	-	1,797	-	1,797	-	1,797
Employee Wellness Program	19,500	-	-	19,500	-	19,500
Groundskeeping Services	104,534	16,877	-	121,411	-	121,411
Housekeeping Services	502,990	5,100	-	508,090	-	508,090
Insurance and Other Costs	1,148,329	42,431	-	1,190,760	-	1,190,760
Laboratory Supplies	478,607	-	-	478,607	-	478,607
Laundry Expense	95,130	-	-	95,130	-	95,130
License and Inspection	46,151	-	-	46,151	-	46,151
Management Fees	1,110,630	13,250	-	1,123,880	-	1,123,880
Marketing	380,855	1,286	-	382,141	-	382,141
Meals and Entertainment	-	2,975	-	2,975	-	2,975
Miscellaneous	4,688	-	-	4,688	-	4,688
Non-Physician Recruitment	1,160	-	-	1,160	-	1,160
Physician Recruitment	37,866	-	-	37,866	-	37,866
Postage and Shipping	175,369	70	-	175,439	-	175,439
Professional Services	180,897	43,041	-	223,938	-	223,938
Property Taxes	1,153,027	23,429	-	1,176,456	-	1,176,456

(Continued)

HOLSTON MEDICAL GROUP, PC AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF INCOME
For the Year Ended December 31, 2017

	HMG, PC	OP, LLC	APS Operations, LLC and Wholly-Owned Subsidiary	Total	Consolidating Eliminations	Consolidated Total
OPERATING EXPENSES (CONTINUED)						
Purchased Services	9,345,064	95,756	100,000	9,540,820	(1,878,080)	7,662,740
Radiology Supplies	204,588	-	-	204,588	-	204,588
Rental Expense	11,339,966	73,519	-	11,413,485	-	11,413,485
Repairs and Maintenance	3,336,447	270,276	-	3,606,723	-	3,606,723
Supplies	7,945,805	12,604	-	7,958,409	-	7,958,409
Travel Expenses	143,209	25,622	-	168,831	-	168,831
Utilities	2,023,737	195,357	-	2,219,094	-	2,219,094
TOTAL OPERATING EXPENSES	104,735,114	3,739,589	100,000	108,574,703	(1,878,080)	106,696,623
OPERATING INCOME	7,987,227	441,702	0	8,428,929	(47,478)	8,381,451
OTHER INCOME (EXPENSE)						
Loss on Sale of Equipment	(16,104)	-	-	(16,104)	-	(16,104)
Income Tax Refund	1,209,424	-	-	1,209,424	-	1,209,424
Interest Earned	417,673	-	-	417,673	(71,668)	346,005
Interest Expense	(387,383)	(354,105)	-	(741,488)	71,668	(669,820)
TOTAL OTHER INCOME (EXPENSE)	1,223,610	(354,105)	0	869,505	0	869,505
INCOME BEFORE PROVISION FOR INCOME TAXES	9,210,837	87,597	-	9,298,434	(47,478)	9,250,956
PROVISION FOR INCOME TAXES	(2,343,703)	-	-	(2,343,703)	-	(2,343,703)
CONSOLIDATED NET INCOME	6,867,134	87,597	0	6,954,731	(47,478)	6,907,253
LESS: NONCONTROLLING INTEREST	-	-	-	-	(40,119)	(40,119)
CONTROLLING INTEREST	$ 6,867,134	87,597	0	6,954,731	(87,597)	6,867,134

See Independent Auditors' Report.

APS OPERATIONS, LLC AND WHOLLY-OWNED SUBSIDIARY
CONSOLIDATING BALANCE SHEET
December 31, 2017

	APS Operations, LLC	APS HP, LLC	Total	Consolidating Eliminations	Consolidated Total
ASSETS					
CURRENT ASSETS					
Cash	$ -	100,000	100,000	-	100,000
Due from Related Companies	90,000	-	90,000	(90,000)	-
Investment in APS Health Partners, LLC	10,000	-	10,000	(10,000)	-
Total Current Assets	100,000	100,000	200,000	(100,000)	100,000
TOTAL ASSETS	$ 100,000	100,000	200,000	(100,000)	100,000
LIABILITIES AND EQUITY					
LIABILITIES					
CURRENT LIABILITIES					
Due to Related Companies	$ 100,000	90,000	190,000	(90,000)	100,000
TOTAL LIABILITIES	100,000	90,000	190,000	(90,000)	100,000
EQUITY					
Members' Equity	-	10,000	10,000	(10,000)	-
TOTAL EQUITY	0	10,000	10,000	(10,000)	0
TOTAL LIABILITIES AND EQUITY	$ 100,000	100,000	200,000	(100,000)	100,000

See Independent Auditors' Report.

APS OPERATIONS, LLC AND WHOLLY-OWNED SUBSIDIARY
CONSOLIDATING STATEMENT OF INCOME
For the Year Ended December 31, 2017

	APS Operations, LLC	APS HP, LLC	Total	Consolidating Eliminations	Consolidated Total
REVENUE					
Contract Revenue	$ 100,000	-	100,000	(100,000)	-
Pre-Participation Agreement Revenue	-	100,000	100,000	-	100,000
Total Revenue	100,000	100,000	200,000	(100,000)	100,000
OPERATING EXPENSES					
Purchased Services	100,000	100,000	200,000	(100,000)	100,000
Total Operating Expenses	100,000	100,000	200,000	(100,000)	100,000
NET INCOME	$ 0	0	0	0	0

See Independent Auditors' Report.

JUL 13 '18 AM10:49

AFFIDAVIT

STATE OF TENNESSEE

COUNTY OF SULLIVAN

Scott R. Fowler, J.D., M.D., being first duly sworn, says that he is the Sole Member and President of the applicant named in this application, that this project will be completed in accordance with the application, that the applicant has read the directions to this application, the Rules of the Health Services and Development Agency, and T.C.A. § 68-11-1601, *et seq.*, and that the responses to this application or any other questions deemed appropriate by the Health Services and Development Agency are true and complete.

Scott R. Fowler, J.D., M.D., President

Sworn to and subscribed before me the 10th day of July 2018, a Notary Public for Sullivan County, Tennessee.

DANI R. MORELAND STATE OF TENNESSEE NOTARY PUBLIC WASHINGTON COUNTY

Dani R Moreland
NOTARY PUBLIC

My commission expires December 5, 2020.

State of Tennessee
Health Services and Development Agency
Andrew Jackson, 9th Floor, 502 Deaderick Street, Nashville, TN 37243
www.tn.gov/hsda Phone: 615-741-2364 Fax: 615-741-9884

August 1, 2018

Jerry W. Taylor, Esq.
Burr & Forman, LLP
222 Second Avenue South, Suite 2000
Nashville, TN 37201

RE: **Certificate of Need Application – Meadowview ASC, LLC- CN1807-028**

The establishment of a three OR multi-specialty ASTC (no procedure rooms) to be located at 2033 Meadowview Lane, Suite 210, Kingsport (Sullivan County), TN. The LLC is currently owned by Scott R. Fowler, M.D. with the expectation that other members of the Holston Medical Group, P.C. will purchase ownership interests. The estimated project cost is $9,829,321.87.

Dear Mr. Taylor:

This is to acknowledge the receipt of supplemental information to your application for a Certificate of Need. Please be advised that your application is now considered to be complete by this office.

Your application is being forwarded to Trent Sansing at the Tennessee Department of Health, Division of Policy, Planning, and Assessment for Certificate of Need review. You may be contacted by Mr. Sansing or someone from his office for additional clarification while the application is under review by the Department. Mr. Sansing's contact information is Trent.Sansing@tn.gov or 615-253-4702.

In accordance with Tennessee Code Annotated, §68-11-1607, et seq., as amended by Public Chapter 780, the 60-day review cycle for this project began on August 1, 2018. The first 60 days of the cycle are assigned to the Department of Health, during which time a public hearing may be held on your application. You will be contacted by a representative from this Agency to establish the date, time and place of the hearing should one be requested. At the end of the 60-day period, a written report from the Department of Health or its representative will be forwarded to this office for Agency review. You will receive a copy of their findings. The Health Services and Development Agency will review your application on October 24, 2018.

Any communication regarding projects under consideration by the Health Services and Development Agency shall be in accordance with T.C.A. § 68-11-1607(d):

- No communications are permitted with the members of the agency once the Letter of Intent initiating the application process is filed with the agency. Communications between agency members and agency staff shall not be prohibited. Any communication received by an agency member from a person unrelated to the applicant or party opposing the application shall be reported to the Executive Director and a written summary of such communication shall be made part of the certificate of need file.

- All communications between the contact person or legal counsel for the applicant and the Executive Director or agency staff after an application is deemed complete and placed in the review cycle are prohibited unless submitted in writing or confirmed in writing and made part of the certificate of need application file. Communications for the purposes of clarification of facts and issues that may arise after an application has been deemed complete and initiated by the Executive Director or agency staff are not prohibited.

Should you have questions or require additional information, please contact me.

Sincerely,

Melanie M. Hill

Melanie M. Hill
Executive Director

cc: Trent Sansing, TDH/Health Statistics, PPA

State of Tennessee
Health Services and Development Agency
Andrew Jackson, 9th Floor, 502 Deaderick Street, Nashville, TN 37243
www.tn.gov/hsda Phone: 615-741-2364 Fax: 615-741-9884

MEMORANDUM

TO: Trent Sansing, CON Director
Office of Policy, Planning and Assessment
Division of Health Statistics
Andrew Johnson Tower, 2nd Floor
710 James Robertson Parkway
Nashville, Tennessee 37243

FROM: Melanie M. Hill
Executive Director

DATE: August 1, 2018

RE: Certificate of Need Application
Meadowview ASC, LLC- CN1807-028

Please find enclosed an application for a Certificate of Need for the above-referenced project.

This application has undergone initial review by this office and has been deemed complete. It is being forwarded to your agency for a sixty (60) day review period to begin on August 1, 2018 and end on October 1, 2018.

Should there be any questions regarding this application or the review cycle, please contact this office.

Enclosure

cc: Jerry W. Taylor

LETTER OF INTENT
TENNESSEE HEALTH SERVICES AND DEVELOPMENT AGENCY

The Publication of Intent is to be published in the Kingsport Times News which is a newspaper of general circulation in Sullivan County, Tennessee, on or before July 10, 2018 for one day.

===

This is to provide official notice to the Health Services and Development Agency and all interested parties, in accordance with T.C.A. § 68-11-1601 *et seq.,* and the Rules of the Health Services and Development Agency, that Meadowview ASC, LLC, a Tennessee Limited Liability Company, which will have a management agreement with HMG Medical Management, LLC, intends to file an application for a Certificate of Need for the establishment of a multi-specialty ambulatory surgical treatment center (ASTC) and the initiation of outpatient surgery. The ASTC will initially have three all-inclusive operating rooms and no designated procedure rooms. Services to be provided are outpatient surgery and related ancillary services. The facility will be located at 2033 Meadowview Lane, Suite 210, Kingsport, Tennessee. The facility will be licensed as an ASTC by the Tennessee Board for Licensing Health Care Facilities. The total estimated project cost is $9,900,000.00.
The anticipated date of filing the application is July 13, 2018.

The contact person for this project is Jerry W. Taylor, Attorney who may be reached at: Burr & Forman, LLP, 222 Second Avenue South, Suite 2000, Nashville, Tennessee, 37201, telephone number: 615-724-3247; email address: jtaylor@burr.com

Signature — 7-10-18 Date

The published Letter of Intent contains the following statement: Pursuant to T.C.A. § 68-11-1607(c)(1): (A) Any health care institution wishing to oppose a Certificate of Need application must file a written notice with the Health Services and Development Agency no later than fifteen (15) days before the regularly scheduled Health Services and Development Agency meeting at which the application is originally scheduled; and (B) Any other person wishing to oppose the application must file written objection with the Health Services and Development Agency at or prior to the consideration of the application by the Agency.

===

*

Supplemental #1
(Original)

Meadowview ASC, LLC

CN1807-028

JUL 23 '18 PM3:09

~~Supplemental #1~~
July 23, 2018
3:09 P.M.

SUPPLEMENTAL RESPONSES

CERTIFICATE OF NEED APPLICATION

FOR

MEADOWVIEW ASC, LLC

The Establishment of a Multi-Specialty Ambulatory Surgical Treatment Center

Sullivan County, Tennessee

Project No. CN1807-028

July 23, 2018

Contact Person:

Jerry W. Taylor, Esq.
Burr & Forman, LLP
222 Second Avenue South, Suite 2000
Nashville, Tennessee 37201
615-724-3247

Supplemental #1
July 23, 2018
3:09 P.M.

1. **Application Form**

   Please resubmit the original application in a manner that is consistent with the Numbering and Lettering with the Application Form found on the Agency's website.

   A replacement application, identical to the original except for the re-numbering requested is attached following this response. Copies of the attachments are not being re-submitted (except for the Sub-Lease referenced in response to Question 5).

Supplemental #1
July 23, 2018
3:09 P.M.

MEADOWVIEW ASC, LLC

CN1807-028

Original Application renumbered only (without attachments)

Response to Supplemental Question #1

~~Supplemental #1~~
July 23, 2018
3:09 P.M.

CERTIFICATE OF NEED APPLICATION

FOR

MEADOWVIEW ASC, LLC

The Establishment of a Multi-Specialty
Ambulatory Surgical Treatment Center

Sullivan County, Tennessee

July 13, 2018

Contact Person:

Jerry W. Taylor, Esq.
Burr & Forman, LLP
222 Second Avenue South, Suite 2000
Nashville, Tennessee 37201
615-724-3247

State of Tennessee
Health Services and Development Agency
Andrew Jackson Building, 9th Floor, 502 Deaderick Street, Nashville, TN 37243
www.tn.gov/hsda Phone: 615-741-2364 Fax: 615-741-9884

CERTIFICATE OF NEED APPLICATION

SECTION A: APPLICANT PROFILE

1. *Name of Facility, Agency, or Institution*

Meadowview ASC, LLC
Name

2033 Meadowview Lane, Suite 210 — Sullivan
Street or Route — County

Kingsport — TN — 37660
City — State — Zip Code

Website address: N/A

*Note: The facility's name and address **must be** the name and address of the project and **must be** consistent with the Publication of Intent.*

2. *Contact Person Available for Responses to Questions*

Jerry W. Taylor — Attorney
Name — Title

Burr & Forman, LLP — jtaylor@burr.com
Company Name — Email address

222 Second Ave. South, Suite 2000 — Nashville — TN — 37201
Street or Route — City — State — Zip Code

Attorney — 615-724-3247 — 615-724-3248
Association with Owner — Phone Number — Fax Number

NOTE: ***Section A*** is intended to give the applicant an opportunity to describe the project. ***Section B*** addresses how the project relates to the criteria for a Certificate of Need by addressing: Need, Economic Feasibility, Contribution to the Orderly Development of Health Care, and the Quality Measures.

SECTION A: EXECUTIVE SUMMARY

A. Overview

Please provide an overview not to exceed three pages in total explaining each numbered point.

1) Description – Address the establishment of a health care institution, initiation of health services, bed complement changes, and/or how this project relates to any other outstanding but unimplemented certificates of need held by the applicant;

The applicant seeks authorization for the establishment of a new multi-specialty ambulatory surgical treatment center (ASTC). The proposed ASTC is planned to have 3 multi-use operating rooms and no designated procedure rooms. The ASC will be owned entirely by surgeons performing cases at the ASTC. It will have an open medical staff so that non-investing surgeons in the area who are credentialed by the ASTC may perform cases there.

2) Ownership structure;

The applicant and proposed licensee is Meadowview ASC, LLC. Meadowview ASC, LLC is a recently formed Tennessee limited liability company, which was formed for the purpose of owning the proposed surgery center. Its ownership will consist of surgeons affiliated with Holston Medical Group, P.C. ("HMG") and is open to investment by additional surgeons in the community. The only initial member of the company for the purpose of legal formation is Dr. Scott R. Fowler, M.D. Additional HMG and community surgeons will invest in the ASC in the future following CON approval. Currently, 18 surgeons affiliated with HMG have signed a Letter of Interest to invest in the ASTC.

HMG is a multi-specialty physician practice group comprised of 118 physicians and 65 mid-level practitioners. HMG has 11 clinical practice locations in Tennessee and an additional 8 clinical practice locations in Virginia.

3) Service area;

The proposed service area for Meadowview ASC consists of Sullivan and Hawkins Counties. Approximately 81% of HMG's patients are residents of these counties.

4) Existing similar service providers;

There are 11 ASTCs located in Sullivan County. Of these, 5 are multi-specialty surgery centers and 6 are single-specialty surgery centers. There are no ASTCs in Hawkins County.

In 2017 the average utilization of all surgical rooms in licensed ASTCs was 1,245 cases per room. The average utilization of operating rooms ("ORs") in licensed ASTCs was 772 cases per room. The average utilization of procedure rooms ("PRs") was 1,743 cases per room.

Every ASTC in the service area has controlling ownership interests held by a hospital, or where it does not have a controlling interest, the hospital has reserved powers giving it *de facto* control over insurance contracting and other important matters. While physician and hospital jointly-owned ASTCs are a very common and attractive model, there is a need for a physician controlled ASTC in the service area.

5) Project cost;

The total estimated project cost (not including the HSDA filing fee) is $9,773,127. The largest single expenditure is the imputed cost of the leasehold interest over the 10 year initial term, at a total lease cost of $4,844,049. The lease includes all space renovation costs amortized over the life of the lease. The next largest single component is fixed and movable equipment (purchased and leased) in the amount of $3,499,927.

6) Funding;

Funding is provided through a combination of a loan from HMG, cash from investors, and operating revenues.

7) Financial Feasibility including when the proposal will realize a positive financial margin; and

The surgery center will be financially feasible, and will realize a positive financial margin in Year 1 and thereafter.

8) Staffing.

In Year 1 the surgery center will be staffed by 13.8 FTE direct patient care providers and an additional 4 FTE contractual staff (not including the surgeons). The facility will employ an additional 4.9 FTE non-patient care staff.

B. Rationale for Approval

A certificate of need can only be granted when a project is necessary to provide needed health care in the area to be served, can be economically accomplished and maintained, will provide health care that meets appropriate quality standards, and will contribute to the orderly development of adequate and effective health care in the service area. This section should provide rationale for each criterion using the data and information points provided in Section B. of this application. Please summarize in one page or less each of the criteria:

1) Need;

The need for the proposed physician-controlled ASTC is based on both the high utilization of existing ASTCs in the service area, and the fact there are no solely physician-controlled ASTCs in the service area.

The 2017 average utilization of ASTCs of 1,245 cases per licensed ASTC surgical room far exceeds the State Health Plan (SHP) 70% capacity benchmark, and that has been the case for several years:

Year	ASTC Cases per Room	% of Need Threshold
2017	1,245	141%
2016	1,027	116%
2015	958	108%

The above utilization also reflects growth of 30% over the 2 year period. The service area ASTCs are well utilized and are experiencing strong growth.

As reflected in Attachment Section C, Need, CON Standards, 1 a total of 48,560 surgical cases were performed in the 11 licensed ASTCs in 2017. Even with no future growth this outpatient surgery volume is enough to support 60 outpatient surgical rooms at the 70% capacity threshold of 884 cases per room. There are currently only 39 ASTC-licensed surgical rooms. The addition of 3 new ORs will still leave plenty of volume for the existing ASTCs to operate at healthy utilization levels.

There is a special need in the service area for a physician controlled ASTC. Every ASTC in the service area has controlling ownership interests held by a hospital, or where it does not have a controlling interest, the hospital has reserved powers giving it *de facto* control over insurance contracting and other important matters. While physician and hospital jointly-owned ASTCs are a very common and attractive model, there is a need for a physician controlled ASTC in the service area.

Since the merger of Wellmont Health Systems and Mountain States Health Alliance into Ballad Health, there is now only one hospital system operating in the entire upper East Tennessee region, thereby reducing competition. Since all ASTCs in the market are controlled by what are now Ballad hospitals, consumers and physicians have little choice as to the ultimate provider of ambulatory surgical services. Ballad may be considering a sale of its majority interests in area ASTCs to another heath care system. But even if this were to occur, there would still be no physician-controlled ASTCs in the service area, and consumer and provider choice would still be limited.

As a physician-controlled facility, Meadowview will facilitate several enhancements to the health care delivery system in the area, and resulting benefits to patients and physicians. These include (1) value-based contracting with third party payors; (2) innovative and mutually beneficial arrangements with Medicare/CMS such as gain-sharing arrangements; (3) lower pricing structures which decrease out of pocket costs to patients; and (4) more physician control over management of the surgery center.

2) Economic Feasibility;

The proposed ASTC is economically feasible. The project costs are commercially reasonable. Most of the project cost consists of the imputed cost of the leasehold interest which is the total amount of lease payments over the initial 10 year term of the lese. These costs will be paid out of the operating revenues of the facility. The out of pocket capital costs will be funded through a combination of a loan from HMG,

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July 23, 2018
3:09 P.M.

cash from investing surgeons, and operating revues. The surgery center will realize a positive financial margin in Year 1 and thereafter.

3) Appropriate Quality Standards; and

Meadowview ASC will be licensed by the Tennessee Board for Licensing Health Care Facilities. It will be accredited by the Accreditation Association for Ambulatory Health Care (AAAHC). Meadowview ASC will meet or exceed all licensing and accreditation standards for quality of care.

Meadowview ASC will have a management services agreement with HMG Medical Management, LLC. HMG Medical Management, LLC, has extensive experience in managing surgery centers, having managed both Holston Valley Ambulatory Surgery Center and Sapling Grove Ambulatory Surgery Center since 2006.

4) Orderly Development to adequate and effective health care.

This proposal will have a positive effect on competition, consumer and provider choice, and heath care costs. It will thus contribute to the orderly development of adequate and effective health care.

There is a special need in the service area for a physician controlled ASTC. Every ASTC in the service area has controlling ownership interests held by a hospital, or where it does not have a controlling interest, the hospital has reserved powers giving it *de facto* control over insurance contracting and other important matters. While physician and hospital jointly-owned ASTCs are a very common and attractive model, there is a need for a physician controlled ASTC in the service area.

Since the merger of Wellmont Health Systems and Mountain States Health Alliance into Ballad Health, there is now only one hospital system operating in the entire upper East Tennessee region, thereby reducing competition. Since all ASTCs in the market are controlled by what are now Ballad hospitals, consumers and physicians have little choice as to the ultimate provider of ambulatory surgical services. Ballad may be considering a sale of its majority interests in area ASTCs to another heath care system. But even if this were to occur, there would still be no physician-controlled ASTCs in the service area, and consumer and provider choice would still be limited.

As a physician-controlled facility, Meadowview will facilitate several enhancements to the health care delivery system in the area, and resulting benefits to patients and physicians. These include (1) value-based contracting with third party payors; (2) innovative and mutually beneficial arrangements with Medicare/CMS such as gain-sharing arrangements; (3) lower pricing structures which decrease out of pocket costs to patients; and (4) more physician control over management of the surgery center.

This proposal would not represent an unnecessary duplication of services. ASTCs in the service area are operating well above the utilization threshold in the Sate Heath Plan, measured by the number of surgical cases per licensed ambulatory surgical room. This proposal would bring additional outpatient surgical capacity, with no significant negative impact on utilization volumes of existing ASTCs.

Nor would this proposal have a negative effect on competition. The State of Tennessee's public policy to promote and protect health care competition in the area

is reflected in the Certificate of Public Advantage that was issued approving the merger of Wellmont Health Systems and Mountain States Health Alliance. This proposal is consistent with that public policy.

C. <u>**Consent Calendar Justification**</u>

If Consent Calendar is requested, please provide the rationale for an expedited review.

N/A. Consent calendar consideration is not sought.

A request for Consent Calendar must be in the form of a written communication to the Agency's Executive Director at the time the application is filed.

N/A.

4. <u>SECTION A: PROJECT DETAILS</u>

A. ***<u>Owner of the Facility, Agency or Institution</u>***

Meadowview ASC, LLC		412-392-7231
Name		Phone Number
2323 N. John B. Dennis Highway		Sullivan
Street or Route		County
Kingsport	TN	37660
City	State	Zip Code

B. ***<u>Type of Ownership of Control</u> (Check One)***

A.	Sole Proprietorship		F.	Government (State of TN or Political Subdivision)	
B.	Partnership		G.	Joint Venture	
C.	Limited Partnership		H.	Limited Liability Company	X
D.	Corporation (For Profit)		I.	Other (Specify)__________	
E.	Corporation (Not-for-Profit)				

Attach a copy of the partnership agreement, or corporate charter and certificate of corporate existence. Please provide documentation of the active status of the entity from the Tennessee Secretary of State's web-site at <u>https://tnbear.tn.gov/ECommerce/FilingSearch.aspx</u>. **Attachment Section A-4A.**

Copies of the organizational documents and an ownership chart are attached as <u>Attachment Section A, 4B</u>.

<u>Describe</u> the existing or proposed ownership structure of the applicant, including an ownership structure organizational chart. Explain the corporate structure and the manner in which all entities of the ownership structure relate to the applicant. As applicable, identify the

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members of the ownership entity and each member's percentage of ownership, for those members with 5% ownership (direct or indirect) interest.

Meadowview ASC, LLC is a recently formed Tennessee limited liability company, which was formed for the purpose of owning the proposed surgery center. Its ownership will consist of surgeons affiliated with Holston Medical Group ("HMG") and is open to investment by additional surgeons in the community. The only initial member of the company for the purpose of legal formation is Dr. Scott R. Fowler, J.D., M.D. Additional HMG and community surgeons will invest in the ASC in the future following CON approval.

5. *Name of Management/Operating Entity (If Applicable)*

HMG Medical Management, LLC
Name

2323 N. John B. Dennis Highway — Sullivan
Street or Route — County

Kingsport — TN — 37660
City — State — Zip Code

Website address: N/A

***For new facilities or existing facilities without a current management agreement, attach a copy of a draft management agreement that at least includes the anticipated scope of management services to be provided, the anticipated term of the agreement, and the anticipated management fee payment methodology and schedule. For facilities with existing management agreements, attach a copy of the fully executed final contract.* Attachment Section A-5.**

A copy of a draft management agreement is attached as Attachment Section A, 5.

6A. ***Legal Interest in the Site of the Institution** (Check One)*

A. Ownership _____
B. Option to Purchase _____
C. Lease of __10__ Years __X__
D. Option to Lease _____
E. Other (Specify) ___________ _____

Check appropriate line above: For applicants or applicant's parent company/owner that currently own the building/land for the project location, attach a copy of the title/deed. For applicants or applicant's parent company/owner that currently lease the building/land for the project location, attach a copy of the fully executed lease agreement. For projects where the location of the project has not been secured, attach a fully executed document including Option to Purchase Agreement, Option to Lease Agreement, or other appropriate documentation. Option to Purchase Agreements must include anticipated purchase price. Lease/Option to Lease Agreements must include the actual/anticipated term of the agreement and actual/anticipated lease expense. The legal interests described herein must be valid **on the date of the Agency's consideration of the certificate of need application.**

A copy of the lease (sub-lease from HMG) is attached as Attachment Section A, 6A.

6B. Attach a copy of the site's plot plan, floor plan, and if applicable, public transportation route to and from the site on an 8 1/2" x 11" sheet of white paper, single or double-sided. *DO NOT SUBMIT BLUEPRINTS*. Simple line drawings should be submitted and need not be drawn to scale.

1) Plot Plan must include:

a. Size of site (*in acres*);

b. Location of structure on the site;

c. Location of the proposed construction/renovation; and

d. Names of streets, roads or highway that cross or border the site.

A plot plan is attached as Attachment Section A, 6B(1).

2) Attach a floor plan drawing for the facility which includes legible labeling of patient care rooms (noting private or semi-private), ancillary areas, equipment areas, etc. On an 8 ½ by 11 sheet of paper or as many as necessary to illustrate the floor plan.

A floor plan is attached as Attachment Section A, 6B(2).

3) Describe the relationship of the site to public transportation routes, if any, and to any highway or major road developments in the area. Describe the accessibility of the proposed site to patients/clients.

The ASTC will be in leased space in an office building which also houses one of the clinical offices of Holston Medical Group (HMG). It is conveniently located in Kingsport, and is very close to a public bus route.

7. ***Type of Institution*** ***(Check as appropriate--more than one response may apply)***

A.	Hospital (Specify)__________	_____	H	Nursing Home	_____
B.	Ambulatory Surgical Treatment Center (ASTC), Multi-Specialty	X	I.	Outpatient Diagnostic Center	_____
C.	ASTC, Single Specialty	_____	J.	Rehabilitation Facility	_____
D.	Home Health Agency	_____	K.	Residential Hospice	_____
E.	Hospice	_____	L.	Nonresidential Substitution-Based Treatment Center for Opiate Addiction	_____
F.	Mental Health Hospital	_____	M.	Other (Specify)__________	_____
G.	Intellectual Disability Institutional Habilitation Facility ICF/IID	_____			

Check appropriate lines(s).

8. **Purpose of Review** ***(Check appropriate lines(s) – more than one response may apply)***

A.	New Institution	X	F.	Change in Bed Complement [*Please note the type of change by underlining the appropriate response: Increase, Decrease, Designation, Distribution, Conversion, Relocation]*	_____
B.	Modifying an ASTC with limitation still required per CON	_____	G.	Satellite Emergency Dept.	_____
C.	Addition of MRI Unit	_____	H.	Change of Location	_____
D.	Pediatric MRI	_____	I.	Other (Specify)__________	_____
E.	Initiation of Health Care Service as defined in T.C.A. §68-11-1607(4) (Specify) Outpatient Surgery	X			

9. **Medicaid/TennCare, Medicare Participation**

MCO Contracts [Check all that apply]

___AmeriGroup _X_United Healthcare Community Plan _X_BlueCare _X_TennCare Select

Medicare Provider Number To be applied for

Medicaid Provider Number To be applied for

Certification Type ASTC

If a new facility, will certification be sought for Medicare and/or Medicaid/TennCare?

Medicare _X_Yes __No __N/A Medicaid/TennCare _X_Yes __No __N/A

10. Bed Complement Data

A. Please indicate current and proposed distribution and certification of facility beds.

N/A.

	Current Licensed	*Beds Staffed*	*Beds Proposed*	**Beds Approved*	***Beds Exempted*	***TOTAL Beds at Completion***
1) Medical						
2) Surgical						
3) ICU/CCU						
4) Obstetrical						
5) NICU						
6) Pediatric						
7) Adult Psychiatric						
8) Geriatric Psychiatric						
9) Child/Adolescent Psychiatric						
10) Rehabilitation						
11) Adult Chemical Dependency						
12) Child/Adolescent Chemical Dependency						
13) Long-Term Care Hospital						
14) Swing Beds						
15) Nursing Home – SNF (Medicare only)						
16) Nursing Home – NF (Medicaid only)						
17) Nursing Home – SNF/NF (dually certified Medicare/Medicaid)						
18) Nursing Home – Licensed (non-certified)						
19) ICF/IID						
20) Residential Hospice						
TOTAL						

**Beds approved but not yet in service* ***Beds exempted under 10% per 3 year provision*

B. Describe the reasons for change in bed allocations and describe the impact the bed change will have on the applicant facility's existing services. Attachment Section A-10.

N/A

C. Please identify all the applicant's outstanding Certificate of Need projects that have a licensed bed change component. If applicable, complete chart below.

N/A

11. Home Health Care Organizations – Home Health Agency, Hospice Agency (excluding Residential Hospice), identify the following by checking all that apply: N/A

	Existing Licensed County	Parent Office County	Proposed Licensed County		Existing Licensed County	Parent Office County	Proposed Licensed County
Anderson	☐	☐	☐	Lauderdale	☐	☐	☐
Bedford	☐	☐	☐	Lawrence	☐	☐	☐
Benton	☐	☐	☐	Lewis	☐	☐	☐
Bledsoe	☐	☐	☐	Lincoln	☐	☐	☐
Blount	☐	☐	☐	Loudon	☐	☐	☐
Bradley	☐	☐	☐	McMinn	☐	☐	☐
Campbell	☐	☐	☐	McNairy	☐	☐	☐
Cannon	☐	☐	☐	Macon	☐	☐	☐
Carroll	☐	☐	☐	Madison	☐	☐	☐
Carter	☐	☐	☐	Marion	☐	☐	☐
Cheatham	☐	☐	☐	Marshall	☐	☐	☐
Chester	☐	☐	☐	Maury	☐	☐	☐
Claiborne	☐	☐	☐	Meigs	☐	☐	☐
Clay	☐	☐	☐	Monroe	☐	☐	☐
Cocke	☐	☐	☐	Montgomery	☐	☐	☐
Coffee	☐	☐	☐	Moore	☐	☐	☐
Crockett	☐	☐	☐	Morgan	☐	☐	☐
Cumberland	☐	☐	☐	Obion	☐	☐	☐
Davidson	☐	☐	☐	Overton	☐	☐	☐
Decatur	☐	☐	☐	Perry	☐	☐	☐
DeKalb	☐	☐	☐	Pickett	☐	☐	☐
Dickson	☐	☐	☐	Polk	☐	☐	☐
Dyer	☐	☐	☐	Putnam	☐	☐	☐
Fayette	☐	☐	☐	Rhea	☐	☐	☐
Fentress	☐	☐	☐	Roane	☐	☐	☐
Franklin	☐	☐	☐	Robertson	☐	☐	☐
Gibson	☐	☐	☐	Rutherford	☐	☐	☐
Giles	☐	☐	☐	Scott	☐	☐	☐
Grainger	☐	☐	☐	Sequatchie	☐	☐	☐
Greene	☐	☐	☐	Sevier	☐	☐	☐
Grundy	☐	☐	☐	Shelby	☐	☐	☐
Hamblen	☐	☐	☐	Smith	☐	☐	☐
Hamilton	☐	☐	☐	Stewart	☐	☐	☐
Hancock	☐	☐	☐	Sullivan	☐	☐	☐
Hardeman	☐	☐	☐	Sumner	☐	☐	☐
Hardin	☐	☐	☐	Tipton	☐	☐	☐
Hawkins	☐	☐	☐	Trousdale	☐	☐	☐
Haywood	☐	☐	☐	Unicoi	☐	☐	☐
Henderson	☐	☐	☐	Union	☐	☐	☐
Henry	☐	☐	☐	Van Buren	☐	☐	☐
Hickman	☐	☐	☐	Warren	☐	☐	☐
Houston	☐	☐	☐	Washington	☐	☐	☐
Humphreys	☐	☐	☐	Wayne	☐	☐	☐
Jackson	☐	☐	☐	Weakley	☐	☐	☐
Jefferson	☐	☐	☐	White	☐	☐	☐
Johnson	☐	☐	☐	Williamson	☐	☐	☐
Knox	☐	☐	☐	Wilson	☐	☐	☐
Lake	☐	☐	☐				

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12. Square Footage and Cost Per Square Footage Chart Note: All construction is renovation to existing leased space. It will be completed by the Lessor, according to Lessee's specifications. The costs are paid through the lease payments.

Unit/Department	Existing Location	Existing SF	Temporary Location	Proposed Final Location	Proposed Final Square Footage		
					Renovated	New	Total
Demolition	2^{nd}. floor, suite 200	10543		2^{nd} floor suite 210	10543		10543
Waiting					1266		1266
Reception / Front Office					1052		1052
Pre- Op					1495		1495
Operating rooms x 3					1291		1291
Sterile / OR support					2351		2351
Post- Op					1405		1405
Rest Rooms x 5					289		289
Staff lounge					487		487
Receiving / storage/ Mechanical					357		357
Nurse					296		296
Common Area					254		254
Unit/Department GSF Sub-Total					10543		
Other GSF Total							
Total GSF					10543		10543
*Total Cost	$1,605,377.00						
**Cost Per Square Foot	$152.27						
per Square Foot Is Within Which Range *(For quartile ranges, please refer to the Applicant's Toolbox on www.tn.gov/hsda)*					☒☐ Below 1^{st} Quartile ☐ Between 1^{st} and 2^{nd} Quartile ☐ Between 2^{nd} and 3^{rd} Quartile ☐ Above 3^{rd} Quartile	☐ Below 1^{st} Quartile ☐ Between 1^{st} and 2^{nd} Quartile ☐ Between 2^{nd} and 3^{rd} Quartile ☐ Above 3^{rd} Quartile	☒☐ Below 1^{st} Quartile ☐ Between 1^{st} and 2^{nd} Quartile ☐ Between 2^{nd} and 3^{rd} Quartile ☐ Above 3^{rd} Quartile

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13. MRI, PET, and/or Linear Accelerator

N/A. No MRI or PET equipment is involved in this project.

1. **Describe the acquisition of any Magnetic Resonance Imaging (MRI) scanner that is adding a MRI scanner in counties with population less than 250,000 or initiation of pediatric MRI in counties with population greater than 250,000 and/or**
2. **Describe the acquisition of any Positron Emission Tomographer (PET) or Linear Accelerator if initiating the service by responding to the following:**

A. Complete the chart below for acquired equipment.

☐ Linear Accelerator	Mev ______ Types: ☐ SRS ☐ IMRT ☐ IGRT ☐ Other ______ Total Cost*: ______ ☐ New ☐ Refurbished	☐ By Purchase ☐ By Lease Expected Useful Life (yrs) ___ ☐ If not new, how old? (yrs) ___
☐ MRI	Tesla: ___ Magnet: ☐ Breast ☐ Extremity ☐ Open ☐ Short Bore ☐ Other ______ Total Cost*: ______ ☐ New ☐ Refurbished	☐ By Purchase ☐ By Lease Expected Useful Life (yrs) ___ ☐ If not new, how old? (yrs) ___
☐ PET	☐ PET only ☐ PET/CT ☐ PET/MRI Total Cost*: ______ ☐ New ☐ Refurbished	☐ By Purchase ☐ By Lease Expected Useful Life (yrs) ___ ☐ If not new, how old? (yrs) ___

* As defined by Agency Rule 0720-9-.01(13)

B. **In the case of equipment purchase, include a quote and/or proposal from an equipment vendor. In the case of equipment lease, provide a draft lease or contract that at least includes the term of the lease and the anticipated lease payments along with the fair market value of the equipment.**

C. Compare lease cost of the equipment to its fair market value. Note: Per Agency Rule, the higher cost must be identified in the project cost chart.

D. Schedule of Operations:

Location	Days of Operation (*Sunday through Saturday*)	Hours of Operation (*example: 8 am – 3 pm*)
Fixed Site *(Applicant)*		
Mobile Locations *(Applicant)*		
(Name of Other Location)		
(Name of Other Location)		

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E. **Identify the clinical applications to be provided that apply to the project.**

F. **If the equipment has been approved by the FDA within the last five years provide documentation of the same.**

SECTION B: GENERAL CRITERIA FOR CERTIFICATE OF NEED

In accordance with T.C.A. § 68-11-1609(b), "no Certificate of Need shall be granted unless the action proposed in the application for such Certificate is necessary to provide needed health care in the area to be served, can be economically accomplished and maintained, will provide health care that meets appropriate quality standards, and will contribute to the orderly development of health care." Further standards for guidance are provided in the State Health Plan developed pursuant to T.C.A. § 68-11-1625.

The following questions are listed according to the four criteria: (1) Need, (2) Economic Feasibility, (3) Applicable Quality Standards, and (4) Contribution to the Orderly Development of Health Care. Please respond to each question and provide underlying assumptions, data sources, and methodologies when appropriate. *Please type each question and its response on an 8 1/2" x 11" white paper, single-sided or double sided*. All exhibits and tables must be attached to the end of the application in correct sequence identifying the question(s) to which they refer, unless specified otherwise. *If a question does not apply to your project, indicate "Not Applicable (NA)."*

QUESTIONS

SECTION B: NEED

A. Provide a response to each criterion and standard in Certificate of Need Categories in the State Health Plan that are applicable to the proposed project. Criteria and standards can be obtained from the Tennessee Health Services and Development Agency or found on the Agency's website at http://www.tn.gov/hsda/article/hsda-criteria-and-standards.

CON STANDARDS AND CRITERIA FOR ASTCs (STATE HEALTH PLAN)

Determination of Need

1. Need. The minimum numbers of 884 Cases per Operating Room and 1867 Cases per Procedure Room are to be considered as baseline numbers for purposes of determining Need. An applicant should demonstrate the ability to perform a minimum of 884 Cases per Operating Room and/or 1867 Cases per Procedure Room per year, except that an applicant may provide information on its projected case types and its assumptions of estimated average time and clean up and preparation time per Case if this information differs significantly from the above-stated assumptions. It is recognized that an ASTC may provide a variety of services/Cases and that as a result the estimated average time and clean up and preparation time for such services/Cases may not meet the minimum numbers set forth herein. It is also recognized that an applicant applying for an ASTC Operating Room(s) may apply for a Procedure Room, although the anticipated utilization of that Procedure Room may not meet the base guidelines contained here. Specific reasoning and explanation for the inclusion in a CON application of such a Procedure Room must be provided. An applicant that desires to limit its Cases to a specific type or types should apply for a Specialty ASTC.

The proposed ASTC will have 3 fully equipped multi-use operating rooms (ORs) and no designated procedure rooms. All surgical cases will be performed in the 3 ORs. A "case" is defined in the State Health Plan as "one visit to an Operating Room or to a Procedure Room by one patient, regardless of the number of surgeries or procedures performed during that visit."

The applicant projects a total of 5,114 cases in Year 1, and 5,427 cases in Year 2. That is an average of 1,704 cases per OR in Year 1 and 1,809 cases per room in Year 2. This exceeds the utilization threshold of 70% of assumed capacity of an OR, or 884 cases per OR per year.

2. Need and Economic Efficiencies. An applicant must estimate the projected surgical hours to be utilized per year for two years based on the types of surgeries to be performed, including the preparation time between surgeries. Detailed support for estimates must be provided.

The applicant accepts as reasonable the assumed times for surgery and clean-up in the State Health Plan of 65 minutes per case and 30 per cases, respectively, regardless of the type of case. Based on those assumptions, the estimated surgical hours for Year 1 and Year 2 are as follows:

Year 1:

5,114 cases x 65 minutes per case = 332,410 surgical minutes.
5,114 cases x 30 minutes per case = 153,420 clean-up minutes.
Total = 485,830 operating room minutes = 8,097 operating room hours.

Year 2:

5,427 cases x 65 minutes per case = 352,755 surgical minutes.
5,427 cases x 30 minutes per case = 162,810 clean-up minutes.
Total = 515,565 operating room minutes = 8,593 operating room hours.

3. Need; Economic Efficiencies; Access. To determine current utilization and need, an applicant should take into account both the availability and utilization of either: a) all existing outpatient Operating Rooms and Procedure Rooms in a Service Area, including physician office based surgery rooms (when those data are officially reported and available) OR b) all existing comparable outpatient Operating Rooms and Procedure Rooms based on the type of Cases to be performed. Additionally, applications should provide similar information on the availability of nearby out-of-state existing outpatient Operating Rooms and Procedure Rooms, if that data are available, and provide the source of that data. Unstaffed dedicated outpatient Operating Rooms and unstaffed dedicated outpatient Procedure Rooms are considered available for ambulatory surgery and are to be included in the inventory and in the measure of capacity.

There are 11 ASTCs located in Sullivan County. Of these, 5 are multi-specialty surgery centers and 6 are single-specialty surgery centers. There are no ASTCs in Hawkins County.

In 2017 the average utilization of all surgical rooms in licensed ASTCs was 1,245 cases per room. The average utilization of operating rooms ("ORs") in licensed ASTCs was 772 cases per room. The average utilization of procedure rooms ("PRs") was 1,743 cases per room.

A table reflecting detailed utilization data for ASTCs in the service area for 2015-2017 is attached as Attachment Section C, Need, CON Standards, 1.

The proposed ASTC will have 3 multi-use operating rooms ("ORs"). That is, all 3 will be fully equipped and capable of accommodating all surgical cases appropriate to be performed in an ASTC, including those requiring general anesthesia. There will be no lower-acuity level Procedure Rooms ("PRs"). Cases such as endoscopies which could be performed in a PR will

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also be performed in the multi-use ORs. For this reason, the most appropriate metric for determining the utilization of existing ASTCs is the total number of cases per room, including both ORs and PRs.

The 2017 average utilization of ASTCs of 1,245 cases per licensed ASTC surgical room far exceeds the State Health Plan (SHP) threshold of 884 cases per room. The average area-wide utilization has exceeded the 70% capacity benchmark for several years:

ASTC Utilization	Cases per Room	% of Need Threshold (884 cases or 70% of capacity)
2017	1,245	141%
2016	1,027	116%
2015	958	108%

The above utilization also reflects growth of 30% over the 2 year period. Clearly the service area ASTCs are well utilized and are experiencing strong growth. An additional ASTC is needed.

There are 4 hospitals in the service area which provide both inpatient and outpatient surgery. In 2016, the latest year for which JAR information is available, the average number of surgical cases per room was 670. Because not all hospitals have ORs dedicated to outpatient surgery, and those which do can change those designations at will, it is not possible to accurately segregate and gage the outpatient utilization rate of these hospitals. Moreover, because of the obvious differences between hospitals and ASTCs as facilities for outpatient surgery, an analysis of the availability of hospital based ORs for outpatient surgery is of little value or relevance.

4. Need and Economic Efficiencies. An applicant must document the potential impact that the proposed new ASTC would have upon the existing service providers and their referral patterns. A CON application to establish an ASTC or to expand existing services of an ASTC should not be approved unless the existing ambulatory surgical services that provide comparable services regarding the types of Cases performed, if those services are known and relevant, within the applicant's proposed Service Area or within the applicant's facility are demonstrated to be currently utilized at 70% or above.

The 2017 average utilization of ASTCs of 1,245 cases per licensed ASTC surgical room far exceeds the State Health Plan (SHP) 70% capacity benchmark, and that has been the case for several years:

ASTC Utilization	Cases per Room	% of Need Threshold (884 cases or 70% of capacity)
2017	1,245	141%
2016	1,027	116%
2015	958	108%

The above utilization also reflects growth of 30% over the 2 year period. Clearly the service area ASTCs are well utilized and are experiencing strong growth.

As reflected in Attachment Section C, Need, CON Standards, 1 a total of [illegible] cases were performed in the 11 licensed ASTCs in 2017. Even with no future growth this outpatient surgery volume is enough to support 60 outpatient surgical rooms at the 70% capacity threshold of 884 cases per room. There are currently only 39 ASTC-licensed surgical rooms. The addition of 3 new ORs will still leave plenty of volume for the existing ASTCs to operate at healthy utilization levels.

HMG surgeons currently perform most of their outpatient surgery cases at Holston Valley Ambulatory Surgery Center, Sapling Grove Ambulatory Surgery Center and Indian Path Medical Center. It is reasonable to assume these facilities will see some change in referral patterns from the HMG surgeons. Holston Valley Ambulatory Surgery Center experienced an average of 1,008 cases per surgical room in 2017, a level which is 114% of the utilization threshold. Sapling Grove Ambulatory Surgery Center experienced an average of 285 cases per surgical room in 2017, which is well below the utilization threshold. There are a number of reason for the low utilization at Sapling Grove, and this in part validates the need for an alternative site for outpatient surgery.

5. Need and Economic Efficiencies. An application for a Specialty ASTC should present its projections for the total number of cases based on its own calculations for the projected length of time per type of case, and shall provide any local, regional, or national data in support of its methodology. An applicant for a Specialty ASTC should provide its own definitions of the surgeries and/or procedures that will be performed and whether the Surgical Cases will be performed in an Operating Room or a Procedure Room. An applicant for a Specialty ASTC must document the potential impact that the proposed new ASTC would have upon the existing service providers and their referral patterns. A CON proposal to establish a Specialty ASTC or to expand existing services of a Specialty ASTC shall not be approved unless the existing ambulatory surgical services that provide comparable services regarding the types of Cases performed within the applicant's proposed Service Area or within the applicant's facility are demonstrated to be currently utilized at 70% or above. An applicant that is granted a CON for a Specialty ASTC shall have the specialty or limitation placed on the CON.

N/A. This proposal is not for a Specialty ASTC.

Other Standards and Criteria

6. Access to ASTCs. The majority of the population in a Service Area should reside within 60 minutes average driving time to the facility.

Kingsport is located in far western Sullivan County, close to the eastern border of Hawkins County. It is almost the mid-point of the service area which consists of Sullivan and Hawkins Counties. Most of the service area population, and at least a majority of it, is within a 60 minute drive of the site for Meadowview ASC in Kingsport.

7. Access to ASTCs. An applicant should provide information regarding the relationship of an existing or proposed ASTC site to public transportation routes if that information is available.

The site is located on Meadowview Lane, just off State Highway 23, locally named James H. Quillen Parkway. The highway runs roughly parallel to Interstate 26, and is a major thoroughfare. The public bus line runs very close to the site.

8. **Access to ASTCs.** **An application to establish an ambulatory surgical treatment center or to expand existing services of an ambulatory surgical treatment center must project the origin of potential patients by percentage and county of residence and, if such data are readily available, by zip code, and must note where they are currently being served. Demographics of the Service Area should be included, including the anticipated provision of services to out-of-state patients, as well as the identity of other service providers both in and out of state and the source of out-of-state data. Applicants shall document all other provider alternatives available in the Service Area. All assumptions, including the specific methodology by which utilization is projected, must be clearly stated.**

The patient origin by county and zip code of residence is reflected below. The projected cases by county and zip codes of patient residence closely track the zip code and county of residence for patients of HMG in 2017.

Projected Patient Origin by County – Year 1

Pt. Residential County	Projected No. of Cases	% of Total
Sullivan County TN (PSA)	3,324	65%
Hawkins County TN (PSA)	818	16%
Washington County VA	455	8.9%
Scott County VA	414	8.1%
Washington County TN	102	2.0%
Total	5,113*	100%

* Slight difference from the projection of 5,114 is due to rounding.

Projected Patient Origin by Zip Code – Year 1

Pt. Zip Code	Pt. Residential County	Projected No. of Cases	% of Total
37660	Sullivan County, TN	941	18.4%
37664	Sullivan County, TN	716	14.0%
37620	Sullivan County, TN	711	13.9%
37618	Sullivan County, TN	189	3.7%
37663	Sullivan County, TN	327	6.4%
37617	Sullivan County, TN	317	6.2%
37665	Sullivan County, TN	113	2.2%
Sub-Total Sullivan		**3,314**	**64.8%**
37642	Hawkins County, TN	424	8.3%
37857	Hawkins County, TN	205	4.0%
37645	Hawkins County, TN	169	3.3%
Sub-Total			

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Hawkins		798	15.6%
Total PSA		**4,112**	80.4%
24201	Washington County, VA	245	4.8%
24202	Washington County, VA	210	4.1%
24251	Scott County, VA	261	5.1%
24244	Scott County, VA	164	3.2%
37615	Washington County, TN	128	2.5%
Grand Total		**5,120***	**100%**

*The less than exact correlations between zip codes and counties, and rounding, most likely account for the slight difference between this total and the projection of 5,114 cases in Year 1.

Although two counties in Virginia account for approximately 17% of the projected patient base, neither contributes over 9% of the projected patient base, and these counties are not included in the primary service area. Therefore the availability of surgical resources in Virginia is not addressed herein.

9. <u>Access and Economic Efficiencies.</u> An application to establish an ambulatory surgical treatment center or to expand existing services of an ambulatory surgical treatment center must project patient utilization for each of the first eight quarters following completion of the project. All assumptions, including the specific methodology by which utilization is projected, must be clearly stated.

Projected Utilization – Year 1

Specialty:	General	Ortho	GYN	Pediatric Gastro	Podiatry	Gastro	ENT	Pulmonary	Totals
Q1	195	108	31	119	14	762	14	7	1250
Q2	198	110	31	121	14	773	14	7	1269
Q3	201	111	32	123	14	785	14	7	1288
Q4	204	113	32	124	15	797	15	7	1307
Totals Year 1	798	442	127	487	57	3117	57	29	**5114**
Q5	207	115	33	126	15	809	15	7	1327
Q6	210	116	33	128	15	821	15	8	1347
Q7	213	118	34	130	15	833	15	8	1367
Q8	216	120	34	132	16	846	16	8	1387
Totals Year 2	847	469	135	517	61	3309	61	30	**5427**

In order to project the number of cases in Year 1, the applicant reviewed the number of cases performed by surgeons and proceduralists employed by Holston Medical Group, P.C., who are expected to perform their procedures at the ASC. Specifically, the applicant calculated these

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surgeries and procedures for the first quarter of 2018 and then annualized them with a small growth factor of 1.5% each quarter.

These projections are based entirely on the cases of the HMG affiliated surgeons, and do not take into account cases that will be performed in the ASTC by non-HMG affiliated surgeons.

10. Patient Safety and Quality of Care; Health Care Workforce.

a. An applicant should be or agree to become accredited by any accrediting organization approved by the Centers for Medicare and Medicaid Services, such as the Joint Commission, the Accreditation Association of Ambulatory Health Care, the American Association for Accreditation of Ambulatory Surgical Facilities, or other nationally recognized accrediting organization.

Meadowview will apply for and expects to receive accreditation through the Accreditation Association for Ambulatory Health Care (AAAHC).

b. An applicant should estimate the number of physicians by specialty that are expected to utilize the facility and the criteria to be used by the facility in extending surgical and anesthesia privileges to medical personnel. An applicant should provide documentation on the availability of appropriate and qualified staff that will provide ancillary support services, whether on- or off-site.

Currently, 18 surgeons affiliated with HMG have signed a Letter of Interest to acquire ownership interests in the ASTC. A copy of the Letter of Interest is attached as Attachment Section C, Need, CON Standards, 2. Ownership opportunities will also be available to non-HMG surgeons in the community who are qualified investors, but the number and specialty of any such surgeons is unknown at this time. The HMG affiliated investing surgeons and their specialties are as follows:

Surgeon	Specialty
Seluk, Crystal	Otolaryngology
Bailey, Lawrence	Gastroenterology
Shone, Dallas	Gastroenterology
Holt, Steven	General Surgery
Hunt, Jeff	General Surgery
Stanski, Cheryl	General Surgery
Thomas, Thomas	General Surgery
Krzyminski, Rebecca	OB/GYN
Mitchell, Christopher	OB/GYN
Schalau, Daphne	OB/GYN
Stevens, Christy	OB/GYN
Krein, Steven	Orthopedic
Park, Jason	Orthopedic
Remy, Lindsay	Orthopedic
Youssef, Ashraf	Orthopedic
Lawrence, Chad	Orthopedic - Podiatry
Francisco, Mary	Pediatric
Bass, Leon	Pulmonary

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Credentialing at the ASC will follow traditional credentialing protocols as established by the ASC and the Medical Director. These criteria will include:

Education and work history
Copy of Current Medical License(s)
Listing of Affiliations with other health care institutions (hospitals, ASCs, etc.)
DEA credentials and certificate
BLA, ACLS, and/or PALS Certificates
Listing of Specialty Board Certifications and continuing education
Evidence of Malpractice Insurance and history of any malpractice actions
Request for Professional References / Peer Recommendations
Current Curriculum Vitae
Current TB skin test results, verification of influenza vaccination and Hepatitis B Series vaccination

11. Access to ASTCs. In light of Rule 0720-11.01, which lists the factors concerning need on which an application may be evaluated, and Principle No. 2 in the State Health Plan, "Every citizen should have reasonable access to health care," the HSDA may decide to give special consideration to an applicant:

a. Who is offering the service in a medically underserved area as designated by the United States Health Resources and Services Administration;

According to the Health Resources and Services Administration website, Sullivan County is a Medically Underserved Population, with a population type "MUP Low Income."

https://datawarehouse.hrsa.gov/tools/analyzers/MuaSearchResults.aspx

b. Who is a "safety net hospital" or a "children's hospital" as defined by the Bureau of TennCare Essential Access Hospital payment program;

N/A.

c. Who provides a written commitment of intention to contract with at least one TennCare MCO and, if providing adult services, to participate in the Medicare program; or

The applicant verifies its intention to contract with at least one TennCare MCO, and to participate in the Medicare program.

d. Who is proposing to use the ASTC for patients that typically require longer preparation and scanning times. The applicant shall provide in its application information supporting the additional time required per Case and the impact on the need standard.

N/A.

[END OF RESPONSES TO SHP STANDARDS AND CRITERIA]

B. Describe the relationship of this project to the applicant facility's long-range development plans, if any, and how it relates to related previously approved projects of the applicant.

The applicant has no long-term plans relating the provision of outpatient surgery beyond this proposal at this time. The applicant has not previously been approved for a CON.

C. Identify the proposed service area and justify the reasonableness of that proposed area. Submit a county level map for the Tennessee portion of the service area using the map on the following page, clearly marked to reflect the service area as it relates to meeting the requirements for CON criteria and standards that may apply to the project. Please include a discussion of the inclusion of counties in the border states, if applicable. Attachment Section B - Need-3.

The proposed primary service area is Sullivan County and Hawkins County. Approximately 81% of the patients of Holston Medical Group were residents of these counties in 2017. Since most of the surgeon owners will be affiliated with HMG, and since the utilization projections in this application are basely solely on the HMG-affiliated surgeons, it is reasonable to assume the patient origin of the proposed ASTC will be roughly the same as that of HMG.

A map of the proposed service area is attached as <u>Attachment Section B, Need, 3</u>.

Although two counties in Virginia account for approximately 17% of the projected patient base, neither contributes more than 9% of the projected patient base and these counties are not included in the primary service area. Therefore the availability of surgical resources in Virginia is not addressed herein.

Please complete the following tables, if applicable:

Service Area Counties	Historical No. of Patients	County % of total cases
Sullivan County TN (PSA)	40,713	65%
Hawkins County TN (PSA)	9,738	16%
Washington County VA	5,576	8.9%
Scott County VA	5,268	8.4%
Washington County TN	1,542	2.0%
Total	62,837	100%

Service Area Counties	Projected No. of Cases	County % of total cases
Sullivan County TN (PSA)	3,324	65%
Hawkins County TN (PSA)	818	16%
Washington County VA	455	8.9%
Scott County VA	414	8.1%
Washington County TN	102	2.0%
Total	5,113*	100%

* Slight difference from the projection of 5,114 is due to rounding.

D. 1) a) Describe the demographics of the population to be served by the proposal.

b) Using current and projected population data from the Department of Health, the most recent enrollee data from the Bureau of TennCare, and demographic information from the US Census Bureau, complete the following table and include data for each county in your proposed service area.

Projected Population Data: http://www.tn.gov/health/article/statistics-population

TennCare Enrollment Data: http://www.tn.gov/tenncare/topic/enrollment-data

Census Bureau Fact Finder: http://factfinder.census.gov/faces/nav/jsf/pages/index.xhtml

***** ***Target Population is population that project will primarily serve. For example, nursing home, home health agency, hospice agency projects typically primarily serve the Age 65+ population; projects for child and adolescent psychiatric services will serve the Population Ages 0-19. Projected Year is defined in select service-specific criteria and standards. If Projected Year is not defined, default should be four years from current year, e.g., if Current Year is 2016, then default Projected Year is 2020.***

A table reflecting the requested information is attached as Attachment Section C, Need, 4, A. The Projected Year is based on a four year planning horizon, 2022. The target population is ages 18+. Although the ASTC will serve all ages of patients the majority will be adults, so ages 18+ is used as the target population for the sake of demographic comparisons.

2) Describe the special needs of the service area population, including health disparities, the accessibility to consumers, particularly the elderly, women, racial and ethnic minorities, and low-income groups. Document how the business plans of the facility will take into consideration the special needs of the service area population.

As compared to the state as a whole the PSA: (1) has lower projected population growth; (2) a higher median age; (3) lower household income; (4) a higher percentage of persons below poverty level; and (5) a higher percentage of TennCare enrollees.

As reflected in the Certificate of Public Advantage (COPA) granted to Ballad Health by the Tennessee Department of Health, the area as identified in the COPA (which area is larger than the PSA) experiences significant health disparities on a national and statewide basis.

Meadowview ASC will be accessible to all consumers regardless of socio-economic status. Meadowview will participate in Medicare, TennCare and numerous commercial health plans. While it may not be in-network with every single health plan, it will participate in as many as is economically feasible.

There is a special need in the service area for a physician controlled ASTC. Every ASTC in the service area has controlling ownership interests held by a hospital, or, where it does not have a controlling interest, the hospital has reserved powers giving it *de facto* control over insurance contracting and other important matters. While physician and hospital jointly-owned ASTCs are a very common and attractive model, there is a need for a physician controlled ASTC in the service area.

Since the merger of Wellmont Health Systems and Mountain States Health Alliance into Ballad Health, there is now only one hospital system operating in the entire upper East Tennessee region, thereby reducing competition. Since all ASTCs in the market are controlled by what are now Ballad hospitals, consumers and physicians have little choice as to the ultimate provider of ambulatory surgical services. Ballad may be considering a sale of its majority interests in area ASTCs to another heath care system. But even if this were to occur, there would still be no physician-controlled ASTCs in the service area, and consumer and provider choice would still be limited.

As a physician-controlled facility, Meadowview will facilitate several enhancements to the health care delivery system in the area, and resulting benefits to patients and physicians. These include (1) value-based contracting with third party payors; (2) innovative and mutually beneficial arrangements with Medicare/CMS such as gain-sharing arrangements; (3) lower pricing structures which decrease out of pocket costs to patients; and (4) more physician control over management of the surgery center.

E. Describe the existing and approved but unimplemented services of similar healthcare providers in the service area. Include utilization and/or occupancy trends for each of the most recent three years of data available for this type of project. List each provider and its utilization and/or occupancy individually. Inpatient bed projects must include the following data: Admissions or discharges, patient days, average length of stay, and occupancy. Other projects should use the most appropriate measures, e.g., cases, procedures, visits, admissions, etc. This doesn't apply to projects that are solely relocating a service.

There are 11 ASTCs located in Sullivan County. Of these, 5 are multi-specialty surgery centers and 6 are single-specialty surgery centers. There are no ASTCs in Hawkins County.

In 2017 the average utilization of all surgical rooms in licensed ASTCs was 1,245 cases per room. The average utilization of operating rooms ("ORs") in licensed ASTCs was 772 cases per room. The average utilization of procedure rooms ("PRs") was 1,743 cases per room.

There are 4 hospitals in the service area which provide both inpatient and outpatient surgery. In 2016, the latest year for which JAR information is available, the average number of surgical cases per room was 670. Because not all hospitals have ORS dedicated to outpatient surgery, and those which do can change those designations at will, it is not possible to accurately segregate and gage the outpatient utilization rate of these hospitals. Moreover, because of the obvious differences between hospitals and ASTCs as facilities for outpatient surgery, an analysis of the availability of hospital based ORs for outpatient surgery is of little value.

A table reflecting detailed utilization data for ASTCs in the service area for 2015-2017 is attached as <u>Attachment Section C, CON Standards, 1</u>.

F. Provide applicable utilization and/or occupancy statistics for your institution for each of the past three years and the projected annual utilization for each of the two years following completion of the project. Additionally, provide the details regarding the methodology used to project utilization. The methodology <u>must include</u> detailed calculations or documentation from referral sources, and identification of all assumptions.

This is a proposed new facility, so there is no historical utilization data. The projected utilization for the first two years of operations is reflected below:

Projected Utilization – Year 1

Specialty:	General	Ortho	GYN	Pediatric Gastro	Podiatry	Gastro	ENT	Pulmonary	Totals
Q1	195	108	31	119	14	762	14	7	1250
Q2	198	110	31	121	14	773	14	7	1269
Q3	201	111	32	123	14	785	14	7	1288
Q4	204	113	32	124	15	797	15	7	1307
Totals Year 1	798	442	127	487	57	3117	57	29	**5114**
Q5	207	115	33	126	15	809	15	7	1327
Q6	210	116	33	128	15	821	15	8	1347
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Q8	216	120	34	132	16	846	16	8	1387
Totals Year 2	847	469	135	517	61	3309	61	30	**5427**

In order to project the number of cases in Year 1, the applicant reviewed the number of cases performed by surgeons and proceduralists employed by Holston Medical Group, P.C., who are expected to perform their procedures at the ASC. Specifically, the applicant calculated these surgeries and procedures for the first quarter of 2018 and then annualized them with a small growth factor of 1.5% each quarter.

SECTION B: ECONOMIC FEASIBILITY

A. Provide the cost of the project by completing the Project Costs Chart on the following page. Justify the cost of the project.

The total estimated project cost (not including the HSDA filing fee) is $9,773,127. The largest single expenditure is the imputed cost of the leasehold interest over the 10 year initial term, at a total lease cost of $4,844,049. The lease includes all construction/renovation costs amortized over the life of the lease. The next largest single component is fixed and movable equipment (purchased and leased) in the amount of $3,499,927. Each of the project cost components were or will be negotiated in arm's length transactions and are commercially reasonable.

A completed Project Costs Chart is attached following this page.

1) **All projects should have a project cost of at least $15,000 (the minimum CON Filing Fee). (See Application Instructions for Filing Fee)**

2) **The cost of any lease (building, land, and/or equipment) should be based on fair market value or the total amount of the lease payments over the initial term of the lease, whichever is greater. Note: This applies to all equipment leases including by procedure or "per click" arrangements. The methodology used to determine the total lease cost for a "per click" arrangement must include, at a minimum, the projected procedures, the "per click" rate and the term of the lease.**

   The lease terms for the building space are commercially reasonable in amount and scope, and represents what the parties believe to be fair market value, which will be verified by and independent third party valuation. The total of the lease payments over the initial term of the lease are entered on line B, 1 of the Project Costs Chart. The lease includes all construction/renovation costs amortized over the life of the lease

3) **The cost for fixed and moveable equipment includes, but is not necessarily limited to, maintenance agreements covering the expected useful life of the equipment; federal, state, and local taxes and other government assessments; and installation charges, excluding capital expenditures for physical plant renovation or in-wall shielding, which should be included under construction costs or incorporated in a facility lease.**

   The more costly medical equipment (those pieces over approximately $50,000) are expected to be leased, while the less costly pieces will be purchased. Because the leased equipment is in the relatively lower cost range (as compared to major equipment such as an MRI unit), it is not practical to have lease quotes at this stage of the project. The equipment cost estimates are based on the best judgment of individuals experienced in the medical equipment market place. The estimated costs of the equipment are included in the appropriate lines on the Project Cost Chart.

4) **Complete the Square Footage Chart on page 8 and provide the documentation. Please note the Total Construction Cost reported on line 5 of the Project Cost Chart should equal the Total Construction Cost reported on the Square Footage Chart.**

   A completed Square Footage Chart is attached following this page. No new construction is involved; the renovation is tenant improvements to the leased space.

5) **For projects that include new construction, modification, and/or renovation—documentation must be provided from a licensed architect or construction professional that support the estimated construction costs. Provide a letter that includes the following:**

a) A general description of the project;

b) An estimate of the cost to construct the project;

c) A description of the status of the site's suitability for the proposed project; and

d) Attesting the physical environment will conform to applicable federal standards, manufacturer's specifications and licensing agencies' requirements including the AIA Guidelines for Design and Construction of Hospital and Health Care Facilities in current use by the licensing authority.

A letter from the project general contractor is attached as Attachment Section C, Economic Feasibility, 1. No new construction is involved; the renovation is tenant improvements to the leased space.

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PROJECT COST CHART

A.	Construction and equipment acquired by purchase:		
	1. Architectural and Engineering Fees		$ 69,150.00
	2. Legal, Administrative, Consultant Fees		$ 60,000.00
	3. Acquisition of Site		$ -
	4. Preparation of Site		$ -
	5. Total Construction Costs		
	6. Contingency Fund		
	7. Fixed Equipment (Not included in Construction Contract)	OR lights	$ 99,927.00
	8. Moveable Equipment (List all equipment over $50,000.00)		$ 1,796,868.54
	9. Other (Specify)	Start up Supplies	$ 1,000,000.00
B.	Acquisition by gift donation, or lease:		
	1. Facility (Inclusive of building and land)		$ 4,844,049.39
	2. Building Only		
	3. Land Only		
	4. Equipment (Specify)	Equipment over $50k (see attached)	$ 1,603,131.46
	5. Other (Specify)		
C.	Financing Costs and Fees:		
	1. Interim Financing		$ 300,000.00
	2. Underwriting Costs		
	3. Reserve for One Year's Debt Service		
	4. Other (Specify)		
D.	Estimated Project Cost (A+B+C)		$ 9,773,126.39
E.	CON Filing Fee		$ 56,195.48
F.	Total Estimated Project Cost (D + E)	TOTAL	$ 9,829,321.87

Meadowview Surgery Center Equipment Listing - OVER 50k

Equipment Name/Description	Quote Amount	Qty. Needed	Extended Cost
Arthroscopy Set Up/Stryker Equipment	$ 155,532.04	1	$ 155,532.04
C Arm OEC 9800	$ 70,000.00	1	$ 70,000.00
Arthroscopy Set Up/Arthrex Equipment	$ 76,031.15	1	$ 76,031.15
ARTHROSOPE SYSTEM (Arthrex Tower)- Arthrex Synergy HD3	$ 202,142.20	2	$ 404,284.39
STERRAD 100S - ADVANCED STERILIZATION PRODUCTS (ASP) STERRAD 100S MODEL	$ 132,335.52	1	$ 132,335.52
PLATFORM PREVAC STERLIZER, ATLANS LOADIN - STERIS AMSCO V-120 PREVAC STEAM STERILIZER	$ 122,133.16	2	$ 244,266.31
LECIA OHS M520 MICROSCOPE SYSTEM	$ 103,618.00	1	$ 103,618.00
MANIFOLD RACK, RELIANCE SYNERGY WASHER/DISINFECTOR	$ 76,238.23	3	$ 228,714.69
MINDRAY A3 ANESTHESIA MACHINE	$ 62,783.11	3	$ 188,349.34
			$ 1,603,131.46

B. Identify the funding sources for this project.

Check the applicable item(s) below and briefly summarize how the project will be financed. *(Documentation for the type of funding MUST be inserted at the end of the application, in the correct alpha/numeric order and identified as Attachment Section B-Economic Feasibility-2.)*

__ 1) **Commercial loan – Letter from lending institution or guarantor stating favorable initial contact, proposed loan amount, expected interest rates, anticipated term of the loan, and any restrictions or conditions;**

__ 2) **Tax-exempt bonds – Copy of preliminary resolution or a letter from the issuing authority stating favorable initial contact and a conditional agreement from an underwriter or investment banker to proceed with the issuance;**

__ 3) **General obligation bonds – Copy of resolution from issuing authority or minutes from the appropriate meeting;**

__ 4) **Grants – Notification of intent form for grant application or notice of grant award;**

__ 5) **Cash Reserves – Appropriate documentation from Chief Financial Officer of the organization providing the funding for the project and audited financial statements of the organization; and/or**

_X_ 6) **Other – Identify and document funding from all other sources.**

Most of the project cost is related to the imputed cost of the lease, which cost will be paid through operating revenues. Likewise, a good portion of the equipment will be leased and paid through operating revenues.

Out of pocket costs such as purchased equipment will be funded through a working capital loan from HMG. A letter from the appropriate officer of HMG is attached as Attachment Section C, Economic Feasibility, 2. In addition, there will be substantial capital infusion through the investments by surgeons.

C. Complete Historical Data Charts on the following two pages—*Do not modify the Charts provided or submit Chart substitutions!*

Historical Data Chart represents revenue and expense information for the last *three (3)* years for which complete data is available. Provide a Chart for the total facility and Chart just for the services being presented in the proposed project, if applicable. Only complete one chart if it suffices.

Note that "Management Fees to Affiliates" should include management fees paid by agreement to the parent company, another subsidiary of the parent company, or a third party with common ownership as the applicant entity. "Management Fees to Non-Affiliates" should include any management fees paid by agreement to third party entities not having common ownership with the applicant.

N/A. The applicant is a newly formed entity and the ASTC is a proposed new facility, so there no historical data.

N/A.

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HISTORICAL DATA CHART

Give information for the last *three (3)* years for which complete data are available for the facility or agency. The fiscal year begins in __________ (Month).

	Year____	Year____	Year____
A. Utilization Data (Specify unit of measure, e.g., 1,000 patient days, 500 visits)	________	________	________
B. Revenue from Services to Patients			
1. Inpatient Services	$________	$________	$________
2. Outpatient Services	________	________	________
3. Emergency Services	________	________	________
4. Other Operating Revenue (Specify)____________________	________	________	________
Gross Operating Revenue	$________	$________	$________
C. Deductions from Gross Operating Revenue			
1. Contractual Adjustments	$________	$________	$________
2. Provision for Charity Care	________	________	________
3. Provisions for Bad Debt	________	________	________
Total Deductions	$________	$________	$________
NET OPERATING REVENUE	$________	$________	$________
D. Operating Expenses			
1. Salaries and Wages			
a. Direct Patient Care	________	________	________
b. Non-Patient Care	________	________	________
2. Physician's Salaries and Wages	________	________	________
3. Supplies	________	________	________
4. Rent			
a. Paid to Affiliates	________	________	________
b. Paid to Non-Affiliates	________	________	________
5. Management Fees:			
a. Paid to Affiliates	________	________	________
b. Paid to Non-Affiliates	________	________	________
6. Other Operating Expenses	________	________	________
Total Operating Expenses	$________	$________	$________
E. Earnings Before Interest, Taxes and Depreciation	$________	$________	$________
F. Non-Operating Expenses			
1. Taxes	$________	$________	$________
2. Depreciation	________	________	________
3. Interest	________	________	________
4. Other Non-Operating Expenses	________	________	________
Total Non-Operating Expenses	$________	$________	$________
NET INCOME (LOSS)	$________	$________	$________

Chart Continues Onto Next Page

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NET INCOME (LOSS)	$____	$____	
G. Other Deductions			
1. Annual Principal Debt Repayment	$____	$____	$____
2. Annual Capital Expenditure	____	____	____
Total Other Deductions	$____	$____	$____
NET BALANCE	$____	$____	$____
DEPRECIATION	$____	$____	$____
FREE CASH FLOW (Net Balance + Depreciation)	$____	$____	$____

☐ **Total Facility**

☐ **Project Only**

HISTORICAL DATA CHART-OTHER EXPENSES

OTHER EXPENSES CATEGORIES	Year____	Year___	Year_____
1. Professional Services Contract	$____	$____	$____
2. Contract Labor	____	____	____
3. Imaging Interpretation Fees	____	____	____
4. ____	____	____	____
5. ____	____	____	____
6. ____	____	____	____
7. ____	____	____	____
Total Other Expenses	$____	$____	$____

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D. Complete Projected Data Charts on the following two pages – *Do not modify the Charts provided or submit Chart substitutions!*

The Projected Data Chart requests information for the two years following the completion of the proposed services that apply to the project. Please complete two Projected Data Charts. One Projected Data Chart should reflect revenue and expense projections for the *Proposal Only* (*i.e.*, if the application is for additional beds, include anticipated revenue from the proposed beds only, not from all beds in the facility). The second Chart should reflect information for the total facility. Only complete one chart if it suffices.

Note that "Management Fees to Affiliates" should include management fees paid by agreement to the parent company, another subsidiary of the parent company, or a third party with common ownership as the applicant entity. "Management Fees to Non-Affiliates" should include any management fees paid by agreement to third party entities not having common ownership with the applicant.

A completed Projected Data Chart is attached following this page.

PROJECTED DATA CHART

X Total Facility
X Project Only

Give information for the last two (2) years for which complete data are available for the facility or agency. The fiscal year begins in ____January____________ (Month)

		Year: 2020	Year: 2021
A.	Utilization/Occupancy Data (Specify unit of measure, e.g., 1,000 patient days, 500 visits)	5114 cases	5427 cases
B.	Revenue from Services to Patients		
	1. Inpatient Services		
	2. Outpatient Services	$12,128,423.00	$12,872,666.00
	3. Emergency Services		
	4. Other Operating Revenue Specify: ________		
	Gross Operating Revenue	$12,128,423.00	$12,872,666.00
C.	Deductions from Operating Revenue		
	1. Contract Deductions	$6,519,983.00	$6,920,072.00
	2. Provision for Charity Care	$121,284.23	$128,726.66
	3. Provision for Bad Debt	$215,709.24	$228,945.92
	Total Deductions	$6,856,976.47	$7,277,744.58
NET OPERATING REVENUE		$5,271,446.53	$5,594,921.42
D.	Operating Expenses		
	1. Salaries and Wages		
	a. Direct Patient Care	$830,681.00	$882,291.00
	b. Non-Patient Care	$304,948.00	$323,024.00
	2. Physicians' Salaries and Wages	$0.00	$0.00
	3. Supplies	$1,567,743.00	$1,657,090.00
	4. Rent		
	a. Paid to Affiliates	$0.00	$0.00
	b. Paid to Non-Affiliates	$446,155.00	$457,308.00
	5. Management Fees:		
	a. Fees to Affiliates	$263,645.00	$263,645.00
	b. Fees to Non-Alffiliates	$0.00	$0.00
	6. Other Operating Expenses	$461,237.00	$463,172.00
	Total Operating Expenses	$3,874,409.00	$4,046,530.00
E.	**Earnings Before Interest, Taxes, and Depreciation**	$1,397,037.53	$1,548,391.42
F.	Non-Operating Expenses		
	1. Taxes	$77,040.00	$77,040.00
	2. Depreciation	$233,332.00	$233,332.00
	3. Interest	$32,000.00	$32,000.00
	4. Other Non-Operating Expenses	$0.00	$0.00
	Total Non-Operating Expenses	$342,372.00	$342,372.00
NET INCOME (LOSS)		$1,054,665.53	$1,206,019.42
G.	Other Deductions		
	1. Estimated Annual Principal Debt Repayment		
	2. Annual Capital Expediture		
	Other Total Deductions	$0.00	$0.00
	NET BALANCE	$1,054,665.53	$1,206,019.42
	DEPRECIATION	$233,332.00	$233,332.00
	FREE CASH FLOW (Net Blance + Depreciation)	$1,287,997.53	$1,439,351.42

PROJECTED DATA CHART -- OTHER EXPENSES

_X_ Total Facility
_X_ Project Only

OTHER EXPENSE CATEGORY	Yea Year 2020	Year 2021
1. Professional Services Contracts	$ 262,877.00	$ 263,885.00
2. Contract Labor	$ -	$ -
3. Imagng Interpretation Fees	$ 15,107.00	$ 16,034.00
Employee Recog & Events	$ 2,182.00	$ 2,182.00
Travel	$ 2,151.00	$ 2,151.00
Cell Phone	$ 532.00	$ 532.00
Continuing Education	$ 2,281.00	$ 2,281.00
Dues & licenses	$ 10,937.00	$ 10,937.00
Bank Charges/Credit Card Fees	$ 15,278.00	$ 15,278.00
Insurance	$ 19,188.00	$ 19,188.00
Maint & Rep-Bldg & Land	$ 3,421.00	$ 3,421.00
Rent/Lease-FF&E	$ 3,361.00	$ 3,361.00
Maint & Rep-FF&E	$ 96,313.00	$ 96,313.00
Medical Director Fees	$ 17,280.00	$ 17,280.00
Marketing	$ 5,790.00	$ 5,790.00
Postage & Shipping	$ 3,615.00	$ 3,615.00
Books & Subscriptions	$ 924.00	$ 924.00
TOTAL OTHER EXPENSES	$ 461,237.00	$ 463,172.00

E. **1) Please identify the project's average gross charge, average deduction from operating revenue, and average net charge using information from the Projected Data Chart for Year 1 and Year 2 of the proposed project. Please complete the following table.**

	Previous Year	Current Year	Year One	Year Two	% Change (Year 1 to Year 2)
Gross Charge *(Gross Operating Revenue/Utilization Data)*	N/A	N/A	$2,371.61	$2,371.97	<1%
Deduction from Revenue *(Total Deductions/Utilization Data)*	N/A	N/A	$1,340.82	$1,341.03	<1%
Average Net Charge *(Net Operating Revenue/Utilization Data)*	N/A	N/A	$1,030.79	$1,030.94	<1%

2) **Provide the proposed charges for the project and discuss any adjustment to current charges that will result from the implementation of the proposal. Additionally, describe the anticipated revenue from the project and the impact on existing patient charges.**

The charge master for the proposed ASTC consists of 1,660 rows of CPT codes, the facility charges, and the Medicare reimbursements rates for each. It is not practical or particularly helpful to attach a copy of the voluminous charge master, in light of the inclusion of the average charge information reflected above.

The initial surgeons and proceduralists who have evidenced their intent to invest in Meadowview ASC, have entered a number of value-based arrangements with managed care organizations. Under these arrangements, physicians and surgeons aim to meet high quality standards while at the same time reducing overall costs. It is the intent and goal of Meadowview ASC to bring more of these value-based arrangements to the ambulatory surgery market. This is a proposed new facility so there are no current charges, but the applicant believes it will be able to facilitate lower charges for outpatient surgery in the area.

3) **Compare the proposed charges to those of similar facilities in the service area/adjoining service areas, or to proposed charges of projects recently approved by the Health Services and Development Agency. If applicable, compare the proposed charges of the project to the current Medicare allowable fee schedule by common procedure terminology (CPT) code(s).**

The proposed average gross charge, average deduction and average net charge are reflected above. These are commercially reasonable and are lower than the 2017 average net charges of all except one of the existing multi-specialty ASTCs in the area, and significantly lower than the average net charge for all service area ASTCs as a whole. The 2017 average net charges of the existing ASTCs in the service area are reflected below.

AVERAGE NET CHARGES - MUTISPECIALTY ASTCs - 2017			
Facility	**Total Net Revenue**	**Total Cases**	**Net Charge per Case**
Bristol Surgery Center	$9,826,923	2403	$4,089
Kingsport ASC	$4,826,094	2848	$1,695
Sapling Grove ASC	$3,200,144	1652	$1,937
Holston Valley Surgery Ctr.	$9,463,423	7058	$1,341
Renaissance Surgery Ctr.	$774,249	1350	$574
Total/Avg.	$28,090,833	15311	**$1,835**

Source: 2017 Joint Annual Reports

F. 1) **Discuss how projected utilization rates will be sufficient to support the financial performance. Indicate when the project's financial breakeven is expected and demonstrate the availability of sufficient cash flow until financial viability is achieved. Provide copies of the balance sheet and income statement from the most recent reporting period of the institution and the most recent audited financial statements with accompanying notes, if applicable. For all projects, provide financial information for the corporation, partnership, or principal parties that will be a source of funding for the project. Copies must be inserted at the end of the application, in the correct alpha-numeric order and labeled as Attachment Section B-Economic Feasibility-6A. NOTE: Publicly held entities only need to reference their SEC filings.**

AS reflected in the Projected Data Chart, Meadowview ASC will be profitable in the first year of operations and thereafter.

Audited financial statements of HMG are attached as Attachment Section C, Economic Feasibility, 6.

2) **Net Operating Margin Ratio – Demonstrates how much revenue is left over after all the variable or operating costs have been paid. The formula for this ratio is: (Earnings before interest, Taxes, and Depreciation/Net Operating Revenue).**

Utilizing information from the Historical and Projected Data Charts please report the net operating margin ratio trends in the following table:

Year	2nd Year previous to Current Year	1st Year previous to Current Year	Current Year	Projected Year 1	Projected Year 2
Net Operating Margin Ratio	N/A	N/A	N/A	0.244	0.257

3) **Capitalization Ratio (Long-term debt to capitalization) – Measures the proportion of debt financing in a business's permanent (Long-term) financing mix.**
This ratio best measures a business's true capital structure because it is not affected by short-term financing decisions. The formula for this ratio is: Long Term Debt/(Long Term Debt + Total Equity) x 100.

For the entity (applicant and/or parent company) that is funding the proposed project please provide the capitalization ratio using the most recent year available from the funding entity's audited balance sheet, if applicable. The Capitalization Ratios are not expected from outside the company lenders that provide funding.

N/A. The applicant is a new entity and has no long term debt.

G. **Discuss the project's participation in state and federal revenue programs including a description of the extent to which Medicare, TennCare/Medicaid and medically indigent patients will be served by the project. Additionally, report the estimated gross operating revenue dollar amount and percentage of projected gross operating revenue anticipated by payor classification for the first year of the project by completing the table below.**

Meadowview ASC will participate in the Medicare and TennCare programs to help insure access to the elderly and to lower income individuals. The projected payor mix and anticipated revenues by payor are reflected below.

Applicant's Projected Payor Mix, Year 1

Payor Source	Projected Gross Operating Revenue	Revenue as a % of total
Medicare/Medicare Managed Care	$2,315,762	19.09%
TennCare/Medicaid	$903,787	7.45%
Commercial/Other Managed Care	$382,277	69.11%
Self-Pay	$11,953	0.10%
Other(Specify): Government/Veterans	$514,643	4.25%
Total	$12,128,422*	100%

* The slight discrepancy from the PDC is due to rounding.

H. **Provide the projected staffing for the project in Year 1 and compare to the current staffing for the most recent 12-month period, as appropriate. This can be reported using full-time equilavent (FTEs) positions for these positions. Additionally, please identify projected salary amounts by position classifications and compare the clinical staff salaries to prevailing wage patterns in the proposed service area as published by the Department of Labor & Workforce Development and/or other documented sources.**

Position Classification	Existing FTEs (2017)	Projected FTEs Year 1	Average Wage (Contractual Rate)	Area Wide/Statewide Average Wage
a. Direct Patient Care Positions				
Circulating Charge Nurse	0	1.0	$30.42	$28.41
Circulating Nurse	0	0.9	$23.92	$28.41

PACU Nurse	0	3.9	$29.11	[illegible]
Pre-Op Nurse	0	3.0	$26.29	$28.41
Surgical Tech III	0	4.0	$24.96	$20.04
Endoscopy Tech	0	1.0	$20.80	$17.60
Total Direct Patient Care Positions	0	13.8	$30.30	$22.01

b. Non-Patient Care Positions				
Director	0	1.0	$49.92	$42.29
Office Manager	0	1.0	$19.03	$17.68
Reimbursement Coordinator	0	1.0	$15.41	$15.41
Purchasing Manager	0	1.0	$20.80	$24.32
Central Sterile Tech	0	0.9	$14.56	$14.53
Total Non-Patient Care Positions	0	4.9	$23.94	$22.85
Total Employees *(A+B)*	0	18.7	$27.12	$22.43
C. Contractual Staff	0	4.0	N/A	N/A
	0	22.7	$27.12	$22.43

I. Describe all alternatives to this project which were considered and discuss the advantages and disadvantages of each alternative including but not limited to:

1) Discuss the availability of less costly, more effective and/or more efficient alternative methods of providing the benefits intended by the proposal. If development of such alternatives is not practicable, justify why not, including reasons as to why they were rejected.

For the reasons discussed in more detail elsewhere in this application, this proposed physician-controlled ASTC is a cost effective means of bringing additional needed surgical capacity to the area, while facilitating innovative and consumer-friendly cost structures and care delivery. No less costly and equally effective alternatives were identified.

2) Document that consideration has been given to alternatives to new construction, e.g., modernization or sharing arrangements.

N/A. No ground-up new construction is involved in this project.

SECTION B: CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTH CARE

A. List all existing health care providers (i.e., hospitals, nursing homes, home care organizations, etc.), managed care organizations, alliances, and/or networks with which the applicant currently has or plans to have contractual and/or working relationships, that may directly or indirectly apply to the project, such as, transfer agreements, contractual agreements for health services.

It is expected that the ASC will have contractual relationships with the categories of providers listed below. It is premature to have specific vendors or contractors identified, or draft agreements in place. The applicant is confident it will identify qualified providers and enter into the necessary arrangements at the appropriate time.

Anesthesiology
Pathology
Radiology
Pharmacy consultant
Blood supplier
Hospital transfer agreement(s)

B. Describe the effects of competition and/or duplication of the proposal on the health care system, including the impact to consumers and existing providers in the service area. Discuss any instances of competition and/or duplication arising from your proposal including a description of the effect the proposal will have on the utilization rates of existing providers in the service area of the project.

1. <u>**Positive Effects**</u>

This proposal will have a positive effect on competition, consumer and provider choice, and heath care costs.

There is a special need in the service area for a physician controlled ASTC. Every ASTC in the service area has controlling ownership interests held by a hospital, or where it does not have a controlling interest, the hospital has reserved powers giving it *de facto* control over insurance contracting and other important matters. While physician and hospital jointly-owned ASTCs are a very common and attractive model, there is a need for a physician controlled ASTC in the service area.

Since the merger of Wellmont Health Systems and Mountain States Health Alliance into Ballad Health, there is now only one hospital system operating in the entire upper East Tennessee region, thereby reducing competition. Since all ASTCs in the market are controlled by what are now Ballad hospitals, consumers and physicians have little choice as to the ultimate provider of ambulatory surgical services. Ballad may be considering a sale of its majority interests in area ASTCs to another heath care system. But even if this were to occur, there would still be no physician-controlled ASTCs in the service area, and consumer and provider choice would still be limited.

The initial surgeons and proceduralists who have evidenced their intent to invest in Meadowview ASC, have entered a number of value-based arrangements with managed care organizations. Under these arrangements, physicians and surgeons aim to meet high quality standards while at the same time reducing overall costs. Meadowview ASC will permit these surgeons to directly control contracting with managed care organizations in a way that complements their value-based arrangements for office services to their patients

As a physician-controlled facility, Meadowview will facilitate several enhancements to the health care delivery system in the area, and resulting benefits to patients and physicians. These include (1) value-based contracting with third party payors; (2) innovative and mutually beneficial arrangements with Medicare/CMS such as gain-sharing arrangements; (3) lower pricing structures which decrease out of pocket costs to patients; and (4) more physician control over management of the surgery center.

2. <u>**Negative Effects**</u>

This proposal would not represent an unnecessary duplication of services. ASTCs in the service area are operating well above the utilization threshold in the Sate Heath Plan, measured by the number of surgical cases per licensed ambulatory surgical room. This proposal would bring additional outpatient surgical capacity, with no significant negative impact on utilization volumes of existing ASTCs.

This proposal will not have a negative effect on competition. The State of Tennessee's public policy to promote and protect health care competition in the area is reflected in the Certificate of Public Advantage that was issued in approving the merger of Wellmont Health Systems and Mountain States Health Alliance. This proposal is consistent with that public policy.

C. 1) Discuss the availability of and accessibility to human resources required by the proposal, including clinical leadership and adequate professional staff, as per the State of Tennessee licensing requirements and/or requirements of accrediting agencies, such as the Joint Commission and Commission on Accreditation of Rehabilitation Facilities.

This project will require 18.7 FTE clinical and non-clinical staff in Year 1, plus an additional 4.0 FTE contractual personnel. The ASTC will maintain adequate staffing at least to the level required by applicable licensing and accreditation requirements.

Meadowview ASC will have a management services agreement with HMG Medical Management, LLC. HMG Medical Management, LLC, has extensive experience in managing surgery centers, having managed both Holston Valley Ambulatory Surgery Center and Sapling Grove Ambulatory Surgery Center since 2006.

2) Verify that the applicant has reviewed and understands all licensing and/or certification as required by the State of Tennessee and/or accrediting agencies such as the Joint Commission for medical/clinical staff. These include, without limitation, regulations concerning clinical leadership, physician supervision, quality assurance policies and programs, utilization review policies and programs, record keeping, clinical staffing requirements, and staff education.

The applicant has or will have the executive management needed to develop and operate the ASTC in compliance with all licensing and accreditation requirements, and commits to doing so.

Meadowview ASC will have a management services agreement with HMG Medical Management, LLC. HMG Medical Management, LLC, has extensive experience in managing surgery centers, having managed both Holston Valley Ambulatory Surgery Center and Sapling Grove Ambulatory Surgery Center since 2006.

3) Discuss the applicant's participation in the training of students in the areas of medicine, nursing, social work, etc. (e.g., internships, residencies, etc.).cxd

As a newly formed entity and a proposed new facility, the applicant currently participates in no such programs, but anticipates it will participate in such programs at the appropriate time.

D. Identify the type of licensure and certification requirements applicable and verify the applicant has reviewed and understands them. Discuss any additional requirements, if applicable. Provide the name of the entity from which the applicant has received or will receive licensure, certification, and/or accreditation.

Licensure: Tennessee Board for Licensing Health Care Facilites

Certification Type (e.g. Medicare SNF, Medicare LTAC, etc.): ASTC

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Accreditation (i.e., Joint Commission, CARF, etc.): To be sought from the Accreditation Association for Ambulatory Health Care (AAAHC).

1) **If an existing institution, describe the current standing with any licensing, certifying, or accrediting agency. Provide a copy of the current license of the facility and accreditation designation.**

   N/A. This is a proposed new facility.

2) **For existing providers, please provide a copy of the most recent statement of deficiencies/plan of correction and document that all deficiencies/findings have been corrected by providing a letter from the appropriate agency.**

   N/A. This is a proposed new facility.

3) **Document and explain inspections within the last three survey cycles which have resulted in any of the following state, federal, or accrediting body actions: suspension of admissions, civil monetary penalties, notice of 23-day or 90-day termination proceedings from Medicare/Medicaid/TennCare, revocation/denial of accreditation, or other similar actions.**

   a) **Discuss what measures the applicant has or will put in place to avoid similar findings in the future.**

   N/A. This is a proposed new facility.

E. **Respond to all of the following and for such occurrences, identify, explain and provide documentation:**

1) **Has any of the following:**

   a. **Any person(s) or entity with more than 5% ownership (direct or indirect) in the applicant (to include any entity in the chain of ownership for applicant);**

   b. **Any entity in which any person(s) or entity with more than 5% ownership (direct or indirect) in the applicant (to include any entity in the chain of ownership for applicant) has an ownership interest of more than 5%; and/or**

   c. **Any physician or other provider of health care, or administrator employed by any entity in which any person(s) or entity with more than 5% ownership in the applicant (to include any entity in the chain of ownership for applicant) has an ownership interest of more than 5%.**

2) **Been subjected to any of the following:**

   a) **Final Order or Judgment in a state licensure action;**

      No.

   b) **Criminal fines in cases involving a Federal or State health care offense;**

      No.

   c) **Civil monetary penalties in cases involving a Federal or State health care offense;**

No.

d) **Administrative monetary penalties in cases involving a Federal or State health care offense;**

No.

e) **Agreement to pay civil or administrative monetary penalties to the federal government or any state in cases involving claims related to the provision of health care items and services; and/or**

No.

f) **Suspension or termination of participation in Medicare or Medicaid/TennCare programs.**

No.

g) **Is presently subject of/to an investigation, regulatory action, or party in any civil or criminal action of which you are aware.**

No.

h) **Is presently subject to a corporate integrity agreement.**

No.

F. Outstanding Projects:

N/A.

1) **Complete the following chart by entering information for each applicable outstanding CON by applicant or share common ownership; and**

N/A.

* **Annual Progress Reports – HSDA Rules require that an Annual Progress Report (APR) be submitted each year. The APR is due annually until the Final Project Report (FPR) is submitted (FPR is due within 90 ninety days of the completion and/or implementation of the project). Brief progress status updates are requested as needed. The project remains outstanding until the FPR is received.**

2) **Provide a brief description of the current progress, and status of each applicable outstanding CON.**

N/A.

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G. **Equipment Registry – For the applicant and all entities in common ownership with the applicant.**

N/A.

1) **Do you own, lease, operate, and/or contract with a mobile vendor for a Computed Tomography scanner (CT), Linear Accelerator, Magnetic Resonance Imaging (MRI), and/or Positron Emission Tomographer (PET)? ____________**

No.

2) **If yes, have you submitted their registration to HSDA? If you have, what was the date of submission?__________**

N/A.

3) **If yes, have you submitted your utilization to Health Services and Development Agency? If you have, what was the date of submission? _**

N/A.

SECTION B: QUALITY MEASURES

Please verify that the applicant will report annually using forms prescribed by the Agency concerning continued need and appropriate quality measures as determined by the Agency pertaining to the certificate of need, if approved.

The applicant verifies it will do so.

SECTION C: STATE HEALTH PLAN QUESTIONS

T.C.A. §68-11-1625 requires the Tennessee Department of Health's Division of Health Planning to develop and annually update the State Health Plan (found at http://www.tn.gov/health/topic/health-planning). The State Health Plan guides the State in the development of health care programs and policies and in the allocation of health care resources in the State, including the Certificate of Need program. The 5 Principles for Achieving Better Health are from the State Health Plan's framework and inform the Certificate of Need program and its standards and criteria.

Discuss how the proposed project will relate to the 5 Principles for Achieving Better Health found in the State Health Plan.

A. **The purpose of the State Health Plan is to improve the health of the people of Tennessee.**

The proposed Meadowview ASC will help improve the lives of its patients by providing a high quality of treatment and care for its patients.

B. **People in Tennessee should have access to health care and the conditions to achieve optimal health.**

The proposed Meadowview ASC will improve access to ambulatory surgical care and services will be provided in accordance with the highest quality standards.

C. Health resources in Tennessee, including health care, should be developed to address the health of people in Tennessee while encouraging economic efficiencies.

The proposed Meadowview ASC will improve access to care and provide high quality ambulatory surgical services in an economically efficient manner.

D. People in Tennessee should have confidence that the quality of health care is continually monitored and standards are adhered to by providers.

The proposed Meadowview ASC will be licensed by the State of Tennessee and accredited by a qualified accrediting institution. It will maintain compliance with all applicable quality standards.

E. The state should support the development, recruitment, and retention of a sufficient and quality health workforce.

The applicant agrees with this policy statement. The proposed Meadowview ASC will maintain staffing at a level consistent with the highest quality standards.

PROOF OF PUBLICATION

Attach the full page of the newspaper in which the notice of intent appeared with the mast and dateline intact or submit a publication affidavit from the newspaper that includes a copy of the publication as proof of the publication of the letter of intent.

A Publisher's Affidavit has been requested and will be submitted timely.

NOTIFICATION REQUIREMENTS

(Applies only to Nonresidential Substitution-Based Treatment Centers for Opiate Addiction)

Note that T.C.A. §68-11-1607(c)(9)(A) states that "...Within ten (10) days of the filing of an application for a nonresidential substitution-based treatment center for opiate addiction with the agency, the applicant shall send a notice to the county mayor of the county in which the facility is proposed to be located, the state representative and senator representing the house district and senate district in which the facility is proposed to be located, and to the mayor of the municipality, if the facility is proposed to be located within the corporate boundaries of a municipality, by certified mail, return receipt requested, informing such officials that an application for a nonresidential substitution-based treatment center for opiate addiction has been filed with the agency by the applicant."

Failure to provide the notifications described above within the required statutory timeframe will result in the voiding of the CON application.

Please provide documentation of these notifications.

N/A.

DEVELOPMENT SCHEDULE

T.C.A. §68-11-1609(c) provides that a Certificate of Need is valid for a period not to exceed three (3) years (for hospital projects) or two (2) years (for all other projects) from the date of its issuance and after such time shall expire; provided, that the Agency may, in granting the Certificate of Need, allow longer periods of validity for Certificates of Need for good cause shown. Subsequent to granting the Certificate of Need, the Agency may extend a Certificate of Need for a period upon application and good cause shown, accompanied by a non-refundable reasonable filing fee, as prescribed by rule. A Certificate of Need which has been extended shall expire at the end of the extended time period. The decision whether to grant such an extension is within the sole discretion of the Agency, and is not subject to review, reconsideration, or appeal.

1. **Complete the Project Completion Forecast Chart on the next page. If the project will be completed in multiple phases, please identify the anticipated completion date for each phase.**

   A completed Project Completion Forecast Chart is attached following this page.

2. **If the response to the preceding question *indicates that the applicant does not anticipate completing the project within the period of validity as defined in the preceding paragraph,***

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please state below any request for an extended schedule and document the "good cause" for such an extension.

N/A. An extended period of validity is not requested.

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PROJECT COMPLETION FORECAST CHART

Assuming the Certificate of Need (CON) approval becomes the final HSDA action on the date listed in Item 1. below, indicate the number of days from the HSDA decision date to each phase of the completion forecast.

Phase	Days Required	Anticipated Date [Month/Year]
1. Initial HSDA decision date		Oct. 2018
2. Architectural and engineering contract signed	N/A	July 2018
3. Construction documents approved by the Tennessee Department of Health	60	Jan 2019
4. Construction contract signed	N/A	Jun 2018
5. Building permit secured	90	Jan 2019
6. Site preparation completed	N/A	N/A
7. Building construction commenced	90	Jan 2019
8. Construction 40% complete	180	April 2019
9. Construction 80% complete	270	July 2019
10. Construction 100% complete (approved for occupancy	300	August 2019
11. *Issuance of License	330	Sept. 2019
12. *Issuance of Service	330	Sept. 2019
13. Final Architectural Certification of Payment	330	Sept 2019
14. Final Project Report Form submitted (Form HR0055)	360	Oct. 2019

***For projects that *DO NOT* involve construction or renovation, complete Items 11 & 12 only.**

NOTE: If litigation occurs, the completion forecast will be adjusted at the time of the final determination to reflect the actual issue date

2. **Section A, Executive Summary, 2) Ownership Structure**

It is noted that the applicant has identified 18 surgeons along with their specialties who have signed a Letter of Interest. How many additional physicians does the applicant estimate will sign a letter of interest and what their specialties might be?

The 18 surgeons are all employees of Holston Medical Group, P.C. To date, Meadowview ASC has not prepared a formal offering memorandum to garner investment interest in the physician community. Upon the grant of a Certificate of Need, Meadowview ASC plans to prepare a formal offering memorandum for the general community. At this time, it is not possible to estimate the scope of interest by non-HMG physicians and surgeons.

What percentage of ownership is each physician investor expected to have?

Percentage of ownership will be commensurate with their capital investment. The terms and amount of investment available to each physician/surgeon will be the same and any differences in ownership percentages will be solely based on the amount any particular physician/surgeon decides to invest in the center. The percentages of ownership by each individual surgeon is not known at this time.

3. **Section A, Executive Summary, 4) Existing similar service providers**

The applicant has stated that all 11 ASTCs in the service area either controlled by a hospital or de facto controlled by a hospital.

According to the Joint Annual Report (JAR) for the ASTCs in Sullivan County, only 2 of the 11 ASTCs indicate a hospital affiliation. The other 9 ASTCs are declared as freestanding. Please explain your statement above in more detail.

The terms "freestanding" and "hospital affiliated" are not defined in the JARs, and it is not known how they are interpreted by those who complete the JARs. The basis for the statements in the application regarding ownership of those facilities is as follows:

Physicians employed by Holston Medical Group, P.C. hold interests in both Holston Valley Ambulatory Surgery Center, LLC, and Sapling Grove Ambulatory Surgery Center, LLC. As a result, definitive information about ownership of these two centers is readily available to the applicant, and is reflected below:

Sapling Grove Ambulatory Surgery Center, LLC (Bristol)

Ballad d/b/a Wellmont	65%
Comprehensive Surgery LLC (HMG Physicians)	25%
Non-HMG Physicians	10%

<u>Holston Valley Ambulatory Surgery Center, LLC (Kingsport)</u>

Ballad d/b/a Wellmont	52%
HMG ASC Investments, LLC (HMG Physicians)	30%
Non-HMG Physicians	18%

NOTE: At HVASC, Ballad's Membership Interests are split into Governance and Financial Interests. Ballad has sold some of its Financial Interests but maintains majority governance.

With regard to the following centers, reference is made to the Application for a Certificate of Public Advantage ("COPA") filed by both Mountain States Health Alliance and Wellmont Health System with the Tennessee Department of Health dated July 13, 2016. The application was approved by the Tennessee Department of Health on September 19, 2017, and the transaction was closed on January 31, 2018. The application relays the following information about ownership:

<u>Bristol Surgery Center</u>
Exhibit A to the Master Affiliation Agreement attached to the COPA Application states that Bristol Surgery Center is owned 100% by Wellmont Health Services Inc.

<u>Renaissance Surgery Center (Bristol)</u>
Exhibit A to the Master Affiliation Agreement attached to the COPA Application states that Renaissance is owned 33% by Wellmont Health Services Inc. Holston Medical Group, P.C. is also aware that Symbion owned a majority interest in Renaissance. However, Ballad executives have verbally told executives at Holston Medical Group, P.C. that Ballad has purchased the ownership interest of Symbion, making it majority owned (if not 100% owned) by Ballad.

<u>Kingsport Ambulatory Surgery Center, LLC (Kingsport)</u>
Exhibit A to the Master Affiliation Agreement attached to the COPA Application states that KASC is owned 43% by Blue Ridge Medical Management Corporation, a Ballad/MSHA for-profit entity The COPA Application, Exhibit 6.1D, lists KASC (often called Kingsport Day Surgery or KDS) as "*controlled*" by Mountain States Health Alliance ("MSHA") as a managed joint venture. As a result, Ballad, through its management agreement, controls KASC

This accounts for all five (5) multi-specialty ASCs in the PSA. With regard to the remaining six (6) single specialty entities, it is Meadowview ASC's understanding that these are not owned or controlled by a hospital system, however, Meadowview ASC has no independent access to ownership information for these entities.

To the extent that Meadowview ASC represented in the application that the single specialty ASTCs were hospital controlled, it was in error and intended only to refer to the multi-specialty ASTCs. Replacement pages correcting these statements are attached as part of the group of replacement pages at the end of these Supplemental Responses.

4. Section A, Project Details, Item 5. Management/Operating Entity

Please identify the members of HMG Medical Management, LLC and each member's percentage of ownership.

A listing of the ownership of HMG Medical Management, LLC, is attached following this response.

What is the expected term of the management agreement?

The initial term is expected to be seven (7) years.

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Ownership of HMG Medical Management, LLC

Adkins, M.D., Steven M.	
Arif, Ruhma MD	1.2987%
Ananthula, M.D., Parvati	1.2987%
Ananthula, M.D., Srinivas	1.2987%
Arnette, M.D., Bryan T	1.2987%
Bailey, M.D., Lawrence	1.2987%
Bates, M.D., Chad	1.2987%
Becker, M.D., Mary E. (1/2 Share)	1.2987%
Boiciuc, M.D., Mircea	0.6494%
Bolick, M.D., Charles A.	1.2987%
Breeding, M.D., Samuel D.	1.2987%
Brockmyre, M.D., Andrew P.	1.2987%
Burke, M.D., Stephen M.	1.2987%
Campbell, Emily MD	1.2987%
Cowden, M.D., David A.	1.2987%
Dove, M.D., Amanda	1.2987%
Easton, M.D., Brian	1.2987%
Fowler, M.D., Scott R. (President / CEO)	1.2987%
Francisco, M.D., Mary Pat	1.2987%
Geer, M.D., Robert M	1.2987%
Gendron, M.D., Richard M.	1.2987%
Green, MD, Douglass	1.2987%
Green, MD, John A	1.2987%
Green, MD, Thomas W.	1.2987%
Hager, M.D., Shelton P.	1.2987%
Harmon, DO, Deana	1.2987%
Herriott, D.O., Samantha	1.2987%
Holt, M.D., Steven M.	1.2987%
Hunt, M.D., Jeffrey T.	1.2987%
Hunt, M.D., Kimberley A.	1.2987%
Jantzi, D.O., Curtis	1.2987%
Jones, M.D., Warren L.	1.2987%
Kirk, M.D., Kevin	1.2987%
Kliesch, M.D, John	1.2987%
Krein, M.D., Steven W.	1.2987%
Lawrence, DPM, Chad	1.2987%
Lee, M.D. , Robert C.	1.2987%
Lewis, M.D., Donald H.	1.2987%
Ley, M.D., Joseph A.	1.2987%
Long, Nicole, MD	1.2987%
Louthan, M.D., James D.	1.2987%
Mancini, MD Jean	1.2987%
Manole, MD, Viorel	1.2987%
Malik, MD, Shahram	1.2987%
Martin, D.O., William	1.2987%
McCormick M.D., Andrew	1.2987%
McCormick M.D., Mary	1.2987%
McQueary, M.D., Jeffrey A.	1.2987%

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Mitchell, M.D., Chris R.	1.2987%
Moon, M.D., Leah Nicole	1.2987%
Moore, M.D., James D.	1.2987%
Morawski, M.D., Emily M.	1.2987%
Morin, M.D., David	1.2987%
Nannenga, M.D., Michael	1.2987%
Neglia, D.O., Chris a.	1.2987%
Odum, M.D., Brett C.	1.2987%
Palmer M.D., Elizabeth	1.2987%
Park, M.D., Jason	1.2987%
Plucker, M.D., Samuel	1.2987%
Switalski, M.D., Remigiusz	1.2987%
Samuel, M.D., Dennis C.	1.2987%
Schalau, M.D., Daphne	1.2987%
Schwartz, M.D., Eric M.	1.2987%
Shafer, D.O.., Brian	1.2987%
Shone, M.D., Dallas N.	1.2987%
Shook, M.D., Josh A.	1.2987%
Stanski, MD, Cheryl A.	1.2987%
Stevens, Christi, DO	1.2987%
Thomas, M.D., Thomas V.	1.2987%
Townsend, M.D., Charolette Ann	1.2987%
Vaughn, M.D., Jeffrey R.	1.2987%
Wallen, M.D., Neil	1.2987%
Whiles, M.D., Rick J.	1.2987%
Windes, M.D., Lois H. (1/2 Share)	1.2987%
Winegar, M.D., J. Bryston	0.6494%
Wright, M.D., Alicia D.	1.2987%
Yallourakis, M.D., D.D.S., Stephen J.	1.2987%
Yamani, Fatemeh MD	1.2987%
	1.2987%
	100.0000%

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5. **Section A, Project Details, Item 6A. Legal Interest in Site**

Please provide a copy of the lease between Holston Medical Group and Physicians Realty Trust.

Physicians Realty Trust is not a direct party to the master lease or the sublease of the proposed site. Physicians Realty Trust is the general partner of the limited partnership that owns Ziegler Tennessee 14, LLC. The reference to Physicians Realty Trust in the Sub-Lease was an error. This has been corrected, and a revised Sub-Lease is attached following this response.

The master lease is from Ziegler Tennessee 14, LLC as assignee of HMG Meadowview, LLC, to Holston Medical Group, P.C. The master lease and related documents are voluminous (90+) pages. Attached following this response are the parts of the lease documents demonstrating that Holston Medical Group, P.C. has legal control of site (as the lessee) and therefor the legal authority to sub-lease it to Meadowview, ASC, LLC.

Please provide the deed from Physicians Realty Trust to document control of the site of the proposed project.

Physicians Realty Trust is not the owner of the land (please see the explanation above). The owner of the land and building is Ziegler Tennessee 14, LLC. A copy of the deed to Zeigler is attached following this response. When the property was transferred to Ziegler, the former owner of the property, HMG Meadowview, LLC, assigned the leases it held as landlord (including the lease to Holston Medical Group, P.C.) to Ziegler.

The final result is that (1) Ziegler is the owner and master landlord; (2) HMG, P.C. is the lessee and sub-lessor of the proposed ASTC suite; and (3) Meadowview, ASC, LLC is the sub-lessee of the proposed ASTC suite.

REAL ESTATE SUB-LEASE COVER SHEET

THE FOLLOWING DEFINED TERMS ARE USED IN THIS LEASE

Lessor:	Holston Medical Group, P.C.
Sub-Lessee:	Meadowview ASC, LLC
Building Name:	Meadowview Lane Professional Center
Property Address:	2033 Meadowview Ln. Kingsport, TN 37660
Suites/Premises:	210
Rentable Square Feet:	10,595
Security Deposit:	______________________
Commencement Date:	Upon issuance of a certificate of occupancy
Term:	10 Years
Ending Date:	TBA
Rate Per Square Foot:	$30.00 (subject to final fair market value opinion)
Monthly Rent :	TBA
Rental Rate Escalator:	Two and one-half percent (2.5%)
Additional Rent:	$12.11

Initial Term

Renewal Options:

Number of Renewal Terms: 1

Length of each Renewal Term: 5 years

each, an Extension

But in no event, no longer than the termination date of the Prime Lease

Days' Written Notice Prior to end of the then Current Term: 180

Notice of Intent Not To Renew:

Prior Days' Written Notice: 180

Authorized Use: Ambulatory Surgery Center

Contact Name: ______________________________

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SUB-LEASE
Between
HOLSTON MEDICAL GROUP, P.C.
And
MEADOWVIEW ASC, LLC

This Sub-Lease is entered effective as of the _____ day of June, 2018 ("Effective Date") by and between **Holston Medical Group, P.C.** ("Lessor") and **Meadowview ASC, LLC** ("Sub-Lessee") with reference to the following:

WITNESSETH

WHEREAS, Lessor currently leases the Property from Physician's Realty Trust ("Landlord") under that certain lease dated the 7th day of October, 2003, as amended by that certain Amendment to Lease dated the 1st day of May, 2007 (First Amendment), as assigned to Ziegler – Tennessee 14, LLC, by that certain Assignment of Leases dated the 10th day of May, 2007, as amended by that certain Second Amendment to Lease Agreement dated the 23rd day of August, 2010 (Second Amendment), and as further amended and merged by that certain Third Amendment to Lease Agreement dated the 21st day of June, 2018, between Holston Medical Group, P.C. and Ziegler - Tennessee 14, LLC (collectively, the "Prime Lease"); and

WHEREAS, Sub-Lessee desires to lease the Premises from Lessor;

THEREFORE, in consideration of the foregoing and other good and valuable consideration, the parties agree as follows:

I. Definitions

Definitions include those as defined on the Cover Sheet.

A. Additional Rent
Additional Rent shall mean all payments made by Sub-Lessee pursuant to Section II.H.

B. Building
Building shall mean the improvements located on the Property.

C. Common Areas
Common Areas shall mean any appurtenant parking areas, truck ways, loading areas, pedestrian walkways and ramps, landscaped areas, stairways, corridors, and other areas and improvements provided by Lessor for the general use of lessees for its respective intended purposes in common with other persons.

D. Landlord
Landlord shall mean Ziegler - Tennessee 14, LLC, the fee simple owner of the Property.

E. Monthly Rent.
Where Sub-Lessee Occupies the Premises for all the days in a month, Monthly Rent shall mean the Rate Per Square Foot set forth on the Cover Page times Usable Space the product of which is then divided by twelve. Where Sub-Lessee Occupies the Premises for less than all the days in a month, Monthly Rent shall mean the Rate Per Square Foot times Usable Space the product of which is divided by twelve, the quotient of which is then pro-rated for the number of days in the month for which the Sub-Lessee Occupies the Premises. Rent is subject to the Rental Rate Escalator as set forth on the Cover Page.

F. Occupy.
Occupy shall mean the complete control over the Premises by Sub-Lessee.

G. Operating Expenses.
Operating Expenses shall those expenses incurred by Landlord to provide the operation and maintenance of the Property, Building and Premises. Operating Expenses include, but are not limited to, the following:

i. any supplies and materials that may be used in the operation and maintenance of the Property;

ii. Cost of replacement of equipment and all maintenance and service agreements on equipment located in or used in connection with the Property or Building (except equipment that is the sole responsibility of Sub-Lessee) including, without limitation, the alarm service;

iii. cost of fire and extended risk and general liability insurance for the Property and Building, including fire insurance and/or other endorsements from time to time, deemed appropriate by Landlord insuring the Property and Building;

iv. Rent Loss insurance in an amount equal to the Monthly Rent and Additional Rent based on 100% of the net rentable area of the Building for a period of at least 12 months commencing with the date of loss, plus real estate taxes, special assessments, utility charges and all insurance premium charges;

v. cost of maintenance and repairs of the parking lot and exterior grounds located within the Property, replacement and repair of glass, glazing and entry doors and all costs of repairs in and to the common areas of the Building;

vi. janitorial services, including trash pickup, vacuuming, floor cleaning and general floor cleanup of the interior of the Building;

vii. maintenance and repair of all component parts of the plumbing, lighting, electrical, heating and air conditioning systems serving the Building and Premises;

viii. utility charges including electricity, water, sewer, natural gas and rubbish pickup for the Building;

ix. all taxes and assessment and governmental charges made by federal, state, county or municipal taxing authorities and whether they be taxing authrotities presently taxing the Property and the Building or by other subsequently crated or otherwise, including license, permit and inspeaction fees and any other taxes and assessments attributable to the Property or the Building or its operation and any tax or other levy, however denominated on, or measured by, the rental collected by the Landlord with respect to the Property or the Building or on the Landlord's business of leasing space in the Premises; and

x. security services for the Property and Building.

H. Plans and Specifications.
Plans and Specifications shall mean those drawings or renderings, electrical, plumbing or other utility schematics and all associated specifications as may be necessary to make Sub-Lessee Improvements.

I. Premises.
Premises shall mean the Suite(s) consisting of the Rentable Square Feet and including all Sub-Lessee Improvement and all Sub-Lessee Furniture and Fixtures.

J. Property
Property shall mean the land, driveways, parking areas, sidewalks, landscaped areas and the Building located at the Property Address as set forth on the Cover Page.

K. Rent
Rent shall mean both Monthly Rent and Additional Rent.

L. Sub-Lessee Furniture and Fixtures.
Sub-Lessee Furniture and Fixtures shall mean furniture, office equipment, racks, counters, shelves and other items purchased by Sub-Lessee for the Authorized Use of the Premises as well as any other movable goods or other personal property belonging to Sub-Lessee.

M. Sub-Lessee Improvements.
Sub-Lessee Improvements shall mean any constructed improvements to the Premises, such as walls, floor coverings, dropped or other ceilings installed below the ceiling of the Building, plumbing, plumbing fixtures, stairs and other similar items constructed within the Premises as may be desired by Sub-Lessee or necessary for the use of the Premises by Sub-Lessee for the Authorized Use. Specifically excluded from the definition of Sub-Lessee Improvements are Sub-Lessee Furniture and Fixtures.

N. Taxes.
Taxes shall mean all real estate taxes assessed against the Property and all personal property taxes assessed against the Property, but not any sales, use, excise, ad valorem, or other tax based on Lessor's income or the value of personal property owned or used by any other lessee on the Property.

II. Rights and Responsibilities of Sub-Lessee

A. Occupancy; Term; Renewal; Intent Not To Renew
In consideration of the payment by Sub-Lessee of the Rent under the Sub-Lease and the performance of the covenants and agreements of this Sub-Lease, Landlord herby lets and demises to Tenant the Premises located in the Building as of the Beginning Date and which shall continue for the Term and end on the Ending Date all as set forth on the Cover Page. Tenant shall have the right and option to renew this Sub-Lease for the Number of Renewal Terms and the for the length of the Renewal Term by notifying Landlord in writing, in advance, all as set forth on the Cover Page. The Initial Term and the Renewal Term are sometimes referred to herein as the "Term". At the end of any Term, Sub-Lessee shall give written notice to Lessor of its Intent Not To Renew as set forth on the Cover Page.

B. Permitted Use
During the Term, Sub-Lessee shall have the exclusive right to Occupy the Premises for the Authorized Use.

C. Rules And Regulations.
Sub-Lessee shall faithfully observe and comply with the rules and regulations applicable to the Building and the Premises, if any, and all modifications thereof and additions thereto from time to time put into effect by Lessor after prior written notice to Sub-Lessee (the "Rules and Regulations"). Lessor shall have no duty to enforce the Rules and Regulations against, nor shall Lessor be responsible for the non-performance of the Rules and Regulations by any other lessee or occupant of the Building. In the event of any conflict between the terms, covenants, agreements and conditions of this Sub-Lease and the terms, covenants, agreements and conditions of the Rules and Regulations, this Sub-Lease shall control.

D. Common Areas
Sub-Lessee shall have a non-exclusive right to use the Common Areas of the Building. Sub-Lessee's use of the Common Areas shall be subject to rules and regulations which Lessor shall impose, from time to time, and shall provide Sub-Lessee with written notice thereof.

E. Non-Permitted Uses
Sub-Lessee shall not commit or permit any waste in or on the Premises or the Common Areas or any nuisance or other act or condition which may disturb the quiet enjoyment of adjoining landowners or other lessees. Sub-Lessee shall not use or allow the Premises or the Common Areas to be used for any improper, immoral or unlawful purpose.

F. Fair Market Value Opinion

Lessor and Sub-Lessee agree to seek a fair market value opinion with regard to the Monthly Rent. Lessor and Sub-Lessee shall agree upon a licensed commercial real estate appraiser. The results of the appraisal shall become the Monthly Rent and the costs of the appraisal shall be borne equally between the parties.

If the parties are unable to agree upon an appraiser, or if a party is dissatisfied with the results of the first appraisal, then each party, or the dissatisfied party, may obtain their own appraisal at their own cost using a licensed commercial real estate appraiser. If the results of the two appraisals differ by ten percent (10%) or less, then the Purchase Price shall be the average of the two appraisals.

If the results of the two appraisals differ by more than ten percent (10%), then the two appraisers shall choose a third licensed commercial real estate appraiser. The Purchase Price shall be the average of all three (3) appraisals. The costs of all three (3) appraisals shall be borne equally between the parties.

G. Payment of Monthly Rent.

Sub-Lessee shall pay Monthly Rent in advance beginning on the Commencement Date at the Lessor's address set forth in Section IV.E. Monthly Rent shall be abated during any period that Lessor fails to fulfill its obligations pursuant to Section III.A and such failure reasonably renders the Premises, Building, or the Property unusable for the Authorized Use.

H. Additional Rent

In addition to Monthly Rent, Sub-Lessee shall pay Additional Rent in advance beginning on the Commencement Date at the Lessor's address set forth in Section IV.E. Additional Rent shall be an estimate of Sub-Lessee's proportionate share of Operating Expenses. Additional Rent shall be abated during any period that Lessor fails to fulfill its obligations pursuant to Sections III.A and such failure reasonably renders the Premises, Building, or the Property unusable for the Authorized Use.

On or before March 31st of each year, Lessor shall provide Sub-Lessee a reconciliation of actual Operating Expenses for the prior year. If Sub-Lessee has overpaid Sub-Lessee's proportionate share of Operating Expenses, Lessor shall refund the difference to Sub-Lessee within thirty (30) days. If Sub-Lessee has underpaid Sub-Lessee's proportionate share of Operating Expenses, Sub-Lessee shall pay the difference to Lessor within thirty (30) days.

Sub-Lessee's Additional Rent for the new year shall be modified to reflect Sub-Lessee's proportionate share of actual Operating Expense for the prior year by diving the prior year Operating Expense by twelve.

I. Late Fees; Interest; Application of Payments.

If any payment to be made by Sub-Lessee to Lessor under this Sub-Lease is not paid within ten (10) days of its due date, Sub-Lessee shall pay to Lessor an additional payment of five percent (5%) of the past due amount ("Late Fees"). Payments not made within thirty (30) days of their due date shall bear interest at the rate of 1 % per month, provided however that interest shall not accrue on Late Fees. Payments shall be credited first toward Late Fees, second toward interest, third to attorneys' fees, and then to any overdue installments of Monthly Rent.

J. Quiet Enjoyment.

During the Term of this Sub-Lease, Sub-Lessee shall peaceably and quietly hold and enjoy the Premises for the Term without hindrance from Lessor, subject only to the terms and conditions of this Sub-Lease as well as any other restrictions of record, applicable laws and restrictions of which Sub-Lessee has actual knowledge.

K. Signs

Sub-Lessee, at Sub-Lessee's sole cost and expense, may install sign(s) on exterior walls and available pylons; provided, however, that Sub-Lessee's signs shall at all times be subject to all applicable governmental requirements and any covenants or restrictions affecting the Property. All signs erected by Sub-Lessee will remain the property of Sub-Lessee, and Sub-Lessee shall maintain such signs in good condition and repair at all times, failing which Lessor shall have the right to so maintain the signs at the sole cost and expense of Sub-Lessee, although nothing herein shall obligate Lessor to maintain such signs.

L. Maintenance of Premises.

Except for the responsibilities of Lessor under Sections III.A, below, Sub-Lessee shall maintain the Premises in a neat and clean condition, including trash removal, and janitorial services serving the Premises as well as the maintenance of Sub-Lessee Improvements and Sub-Lessee Furniture and Fixtures.

M. Sub-Lessee Improvements

1. *Written Consent; Conditions*

Sub-Lessee shall not make any alterations to the Premises without the prior written consent of Landlord and Lessor, provided consent shall not be unreasonably withheld. Any alterations made shall remain on and be surrendered with the Premises on expiration or termination of the Lease, except Lessor can elect within thirty (30) days before or ten (10) days after expiration or termination of this Sub-Lease, to require Sub-Lessee to remove any alterations that Sub-Lessee has made to the Premises. If Lessor elects, Sub-Lessee shall restore the Premises at its cost to the condition which existed at the beginning of the Term, accepted changes and normal wear and tear excepted.

2. *Standards for Permitted Alterations*

Any alterations made by Sub-Lessee shall be performed in a good workmanlike manner in quality and class at least equal to that existing at the time the improvements are made and shall not weaken or impair the structural strength or lessen the value of the Building or the Premises or change the purpose for which the Premises may be used. Any and all plans and construction will have to be done in accordance with the Prime Lease. In addition, Sub-Lessee covenants it will obtain approval from Landlord, Lessor, and all governmental agencies or departments having authority and/or jurisdiction thereof and or any public utility having an interest therein, and all improvements shall be done in accordance with the requirements of local regulations. Sub-Lessee shall not allow any liens for materials furnished and/or labor performed to attach to the Premises or the Building as a result thereof. After ten (10) days prior written notice, Lessor shall have the right, but not the obligation, to cure any default under this paragraph, if Sub-Lessee does not cure the default within the notice period. The costs and expenses of curing the default shall be added to the next installment of Rent and if not so paid, shall be treated as a default in the payment of Rent.

N. Insurance.

As of the Commencement Date and continuing until expiration of the Term, Sub-Lessee shall procure, pay for and maintain in effect the insurance coverage as follows:

1. *Commercial General Liability.*

A Commercial General Liability policy in an amount not less than $1,000,000.00 combined single limit for each occurrence naming Lessor and such other parties with an insurable interest in the Premises as additional insureds, as their interests may appear.

2. *Premises Liability Insurance.*

An All-Risk replacement cost property policy to protect Sub-Lessee's Improvements and Sub-Lessee's Furniture and Fixtures from standard perils of loss and including coverage for vandalism, malicious mischief and sprinkler damage.

3. *Worker's Compensation.*
A Workers' Compensation policy for all Sub-Lessee employees with statutory limits. Upon request by Lessor, Sub-Lessee shall provide Lessor with certificates of insurance evidencing the above coverages and conditions.

O. Inspection.
Landlord, Lessor, or its representatives, shall have the right at all reasonable times and upon reasonable notice to Sub-Lessee during a Term of this Sub-Lease to enter the Premises for the purpose of examining or inspecting the same and to assure itself that Sub-Lessee is repairing and maintaining the Premises as provided in this Sub-Lease. Lessor shall use all reasonable effort not to disturb Sub-Lessee's use and occupancy. In the event Sub-Lessee is not performing its covenants of maintenance and repair, Lessor shall have the right, but not the obligation, to perform necessary maintenance and repairs and the cost and expenses thereof shall be added to the next succeeding installment of Rent and if not so paid, shall be treated as a default in the payment of Rent.

P. Assignment and Subletting.
Sub-Lessee shall not assign or encumber this Sub-Lease, nor shall this Sub-Lease be assigned or transferred by operation of law without prior consent in writing of Landlord, Lessor, and Landlord's lender. Provided, upon approval from Landlord's lender, Sub-Lessee may assign its rights and obligations under this Sub-Lease at any time to any entity that controls, is controlled by or is under common control with Sub-Lessee or to any affiliated entity in which Sub-Lessee is a joint venture, partner or member, so long as Sub-Lessee continues to be contractually liable for all its obligations under this Sub-Lease and the entity satisfies the use requirements in Section II.B.

Q. End of Term.

1. *Return of Premises.*
At the end of the Term, Sub-Lessee shall surrender the Property to Lessor broom clean and in substantially the same condition as at the time of Occupancy, reasonable wear and tear, insured damage by fire and other casualties and condemnation or appropriation by eminent domain excepted. Sub-Lessee shall not remove from or assert any rights in or to the Sub-Lessee Improvements. Sub-Lessee shall surrender to Lessor all keys to or for the Building and the Premises and shall inform Lessor of all combinations of locks, safes and vaults, if any, in the Premises.

2. *Removal of Sub-Lessee Furniture and Fixtures.*
Sub-Lessee shall have the right to remove all Sub-Lessee Furniture and Fixtures from the Premises, at its sole cost and expense, at the termination of this Sub-Lease. Sub-Lessee shall be responsible for the reparation of any damages to the Sub-Lessee Improvements caused by such removal if, and only if, the next Sub-Lessee obtained for the Premises elects not to make any Sub-Lessee Improvements under the terms of their Lease.

3. *Removal of Sub-Lessee Signs.*
Sub-Lessee shall remove its signs upon termination of this Sub-Lease. If Sub-Lessee fails to remove any such signs upon termination of this Sublease, then such signs shall become the property of Lessor, and Sub-Lessee shall pay for the cost of removing same.

4. *Holding Over.*
Any holding over by Sub-Lessee of the Premises after expiration of the Term shall operate and be construed as a tenancy at sufferance from month-to-month at the then current Rent (unless Sub-Lessee's holding over prevents another Sub-Lessee, with signed Lease, from occupying the Premises in which case the Rent shall be 150% of the then current Rent) and on the same terms and conditions as contained herein plus any damages suffered by Lessor as a result of such hold over.

R. Subordination And Attornment.

1. *Subordination*
Sub-Lessee hereby subordinates all of its right, title and interest in and under this Sub-Lease to the lien of any deed of trust and the lien resulting from any other method of financing or refinancing and to all replacements, renewals, modifications or extensions thereof that may now or hereafter affect the Premises, Building or Property or against any improvements hereafter placed on the Property. On demand, Sub-Lessee shall execute, acknowledge and deliver to Lessor all instruments that may be necessary or proper to subordinate this Sub-Lease and all rights therein to the lien of any deed of trust and any replacements, renewals, modifications or extensions.

2. *Lessor's Interest; Attornment*
In the event of the Prime Lease is terminated for any reason, Sub-Lessee agrees that it will attorn to the Landlord upon notice by the Landlord and will thereafter make all payments including, without limitation, Rent, directly to the Landlord or other person as designated by the Landlord. Provided, Sub-Lessee's obligation to subordinate its rights under this Sub-Lease and to attorn to the Landlord shall be contingent upon the Landlord's execution of a non-disturbance agreement agreeing that Sub-Lessee's rights and benefits under this Sub-Lease shall not be interrupted as long as Sub-Lessee performs all of its covenants and obligations under this Sub-Lease.

3. *Liability of Lender Under This Lease*
Sub-Lessee expressly agrees that any lender of Lessor and/or mortgagee shall not be held subject to any liability or obligation to Sub-Lessee under this Sub-Lease or otherwise, unless and until the lender and/or mortgagee obtains title to the Property as a result of foreclosure or otherwise. In this event, Lessor's lender or the mortgagee shall be subject to only those liabilities or obligations arising subsequent to the date the lender or mortgagee obtains title to the Property.

S. Estoppel Certificates.
At any time and from time to time, within ten (10) days after written request from Lessor, Sub-Lessee shall execute, acknowledge and deliver to Lessor or to any party designated by Lessor a certificate from Sub-Lessee ("Estoppel Certificate") stating:

i. that Sub-Lessee has accepted the Premises,

ii. the Commencement Date and expiration of this Sub-Lease,

iii. that this Sub-Lease is unmodified and in full force and effect (or, if there have been modifications, that same is in full force and effect as modified and stating the modifications),

iv. whether or not there are then existing any defenses against the enforcement of any of the obligations of Sub-Lessee under this Sub-Lease (and, if so, specifying same),

v. whether or not there are then existing any defaults by Lessor in the performance of its obligations under this Sub-Lease (and, if so specifying same),

vi. the dates, if any, to which Rent and other charges under this Sub-Lease have been paid, and

vii. any other information that may reasonably be required by any of these persons.

Sub-Lessee's failure to execute an Estoppel Certificate within ten (10) days after written demand by Lessor shall constitute an Event of Default by Sub-Lessee hereunder. Any Estoppel Certificate may be relied upon by Lessor and by any prospective purchaser or mortgagee considering the purchase of or a loan on all or any part of the Building or the Property. Sub-Lessee shall indemnify and hold Lessor harmless from and against all costs, damages, expenses, liabilities and fees arising from or in any way related to or connected with Sub-Lessee's failure to deliver any Estoppel Certificate within the time specified.

III. Rights and Responsibilities of Lessor

A. Building and Maintenance

During the Term, and to the extent any of the following are not the fault of Sub-Lessee, Lessor's obligations shall include the following:

1. *Building.*
Lessor shall maintain all structural components of the Building, including the roof, foundation, exterior walls and other structural components of the Building as necessary to insure the comfortable Occupancy of the Premises.

2. *Mechanicals.*
Lessor shall provide and maintain the mechanicals serving the Building and the Premises, including but not limited to all heating, ventilation, and air conditioning ("HVAC") equipment, fire protection systems, power supplies and other mechanical equipment serving the Building and the Premises.

3. *Utilities.*
Lessor shall provide adequate electricity, telephone, broadband internet access, water, sewer, and gas sufficient for the Authorized Use of the Premises. If Sub-Lessee has significant utility needs, Landlord and/or Lessor reserves the right to require intallation so separate metering systems for the Premises, all such costs of installation to be the responsibility of Sub-Lessee.

4. *ADA Compliance.*
Lessor agrees to be responsible for the demolition, construction, re-routing or other structural changes to the Property, but not including the Premises, to insure that it meets the requirements of the Americans with Disabilities Act, including the adding of ramps, railings, etc. for ingress and egress and the provision of adequate handicapped parking for the Authorized Use.

5. *Premises Changes*
Lessor reserves the right upon prior written notice to Sub-Lessee, at any time and from time to time, to make alterations, additions, repairs or improvements to or in or to decrease the size or area of all of or any part of the Common Areas of the Building, fixtures and equipment therein and walkways outside of the Building including, without limitation, the heating, ventilating, air conditioning, plumbing, electrical, fire protection, life, safety, security and other mechanical, electrical and communications systems of the Building (herein called the "Building Systems"), and the Common Areas and to change the arrangement and/or location of entrances or passageways, doors and doorways, corridors, elevators, stairs, toilets and other public parts of the Building. Provided, these alterations or additions shall not materially diminish the quality or quantity of services being provided to the Building or adversely affect the functional utilization of the Building.

B. Assignment

1. *Right to Assign*
Lessor, and Landlord under the Prime Lease, reserve the right to assign, sell, convey, mortgage, hypothecate or make any disposition with regard to its interests in the Building and/or Premises. This Sub-Lease shall be binding on any successors or assigns. Sub-Lessee covenants and agrees to give its acknowledgments of the conveyance in writing upon request and to execute any written instruments as shall be necessary or convenient in connection therewith.

2. *Effect of Assignment*
Sub-Lessee agrees that upon assignment of Lessor's interest, Lessor shall be relieved of further responsibilities under this Sub-Lease, to the extent so provided in the assignment, and Lessor's assignee shall assume the obligations of Lessor, and Sub-Lessee shall attorn to the assignee.

C. Indemnity.
Lessor agrees to defend, hold harmless and indemnify Sub-Lessee against any legal liability, including all costs, expenses and attorney's fees with respect to any bodily injury, death, and property damage arising from the negligence of Lessor or any of its agents, employees or invitees, or any claim thereof, arising from use of the Common Areas.

D. Security Deposit
Lessor shall hold the Security Deposit as security for Sub-Lessee's performance under this Sub-Lease and as security against any damages caused to the Building or Common Areas by Sub-Lessee, its employees, agents, contractors, subcontractors, invitees, licensees or guests. Lessor shall not apply the Security Deposit towards any sums due, or which come due, under this Sub-Lease except for sums due, or which come due, under this Sub-Lease as a result of Sub-Lessee's failure to perform its rights and responsibilities under this lease or any damage caused by Sub-Lessee, its employees, agents, contractors, subcontractors, invitees, licensees or guests. Upon surrender of the Premises by Sub-Lessee at the end of the Term, Lessor shall return the Security Deposit to Lessor.

IV. Miscellaneous

A. Default by Sub-Lessee and Remedies of Lessor.

1. *The following shall constitute an event of default by Sub-Lessee under this Sub-Lease:*

i. Failure of Sub-Lessee to pay Rent for more than ten (10) days after Sub-Lessee receives written notice that Rent is due;

ii. Failure to perform any other provisions of this Sub-Lease where such failure is curable and continues uncured for thirty (30) days after written notice by the non-defaulting party. If the nature of the default is such that it cannot reasonable be cured within thirty (30) days, the default shall not be deemed to have occurred if a cure is commenced within such thirty (30) day period and is diligently pursued to completion.

iii. If Sub-Lessee shall cease operation of its business and vacate or abandon the Premises.

2. *Upon default by Sub-Lessee, Lessor shall have the following remedies:*
Terminate this Sub-Lease and retake possession of the Premises, without thereby waiving any of Lessor's rights against Sub-Lessee, however, in no event shall Lessor have the right to place a lien on, withhold, store, or deny Sub-Lessee access to Sub-Lessee's Furniture and Fixtures.

i. Enter the Premises and relet the same or any part of the Premises in the name of Lessor, or otherwise, as Sub-Lessee's agent, for a term shorter or longer than the balance of the then existing Initial Term or Extended Term thereby terminating Sub-Lessee's right to possess the Premises, without terminating Sub-Lessee's obligations to pay (a) the entire balance of Rent and Monthly Utility Payments for the remainder of the then existing Initial Term or Extended Term plus (b) all costs and expenses incurred by Lessor in connection with the reletting of the Premises including. The preceding sentence shall not be deemed to allow Lessor to accelerate all future payments due from Sub-Lessee but only the right to collect said amounts as they would naturally come due under this Sub-Lease.

ii. Recover all reasonable attorney's fees related to the breach or the enforcement of Lessor's rights hereunder.

B. Default by Lessor and Sub-Lessee's Remedies.
Subject to Paragraph IV.H and **Error! Reference source not found.** if Lessor fails to perform any material duties or obligations imposed on it by this Sub-Lease and the Default shall continue for a period of twenty (20) days after written notice thereof has been given to Lessor and Landlord by Sub-Lessee in the manner as provided in Paragraph IV.E, or if performance cannot reasonably be completed within twenty (20) days, Lessor shall not in good faith have commenced performance within the twenty (20) day period and shall not diligently proceed to completion of performance, Sub-Lessee shall have the right to cancel and terminate this Sub-Lease without the necessity of providing Lessor with any additional notice of cancellation and termination. In the event of termination, Sub-Lessee shall not have any further obligation or liability to Lessor for the payment of Rent accruing after the date of termination.

C. Damage or Destruction.

1. *Duty to Restore Property, Building or Common Areas.*
In the event of a partial destruction of the Building during the Term from any cuase other than negligence of Sub-Lessee, Landlord has reserved the right in the Prime Lease to repair the same, at its option, provided the repairs can be made in Landlord's sole discretion within one hundred eighty (180) calendar days after approval from the applicable governmental authorities. Landlord has agreed to make the election to repair or not to repair the Building by written notice to Lessor within twenty (20) days from the date of the destruction. Any partial destruction of the Building wherein Landlord elects to repair the same shall neither annul nor void this Sub-Lease except the Sub-Lessee shall be entitled to a proportionate reduction of Monthly Rent and Additional Rent while the repairs are being made based on the extent to which the making of repairs shall interfere with the business carried on by Sub-Lessee in the Premises, subject to arbitration if the parties cannot agree o nthe extent of interference. In the event the repairs cannot be made by Landlord within this one hudred eighty (180) calendar day perido, or the repairs cannot be made under the laws and regulations of the applicable governmental authorities, this Sub-Lease may be terminated at the option of either party. Should the Premises be destroyed to the extent of fifty percent (50%) or more of the replacement costs therof, this shall be deemed total destruction of the Building and the Premises and this Sub-Lease shall be terminated. Provided, if the particular total destruction is a result of negligence of the Sub-Lessee, its agents or employees, Landlord shall have the right to repair the same, at its option. Any factual dispute between Landlord and Tenant relative to the provisions of this Section shall be subject to arbitration.

2. *Business Continuity*
Except for the willful acts of Landlord and/or Lessor, no damages, compensation or claims shall be payable by Landlord or Lessor for inconvenience, loss of business or annoyance arising from any repair or restoration of any portion of the Building or Premises. Landlord has agreed that it shall use its best efforts to affect any repair or restoration that Landlord is required to perform under the Prime Lease promptly and in a manner which shall not unreasonably interfere with Sub-Lessee use and occupancy. Neither Landlord nor Lessor shall be required to carry insurance of an ykindon Tenant's property and shall not be obligated to repair any damage thereto or replace the same.

3. *Rights of Lender*
Notwithstanding anything contained herein to the contrary, Sub-Lessee acknowledges that in the Prime Lease the Landlord obligation to repair the Premises is subject to the prior right of Landlord's lender to receive insurance proceeds as a result of a fire or other casualty. Any obligation of the Landlord shall be limited to the extent insurance proceeds are received by Landlord for these repairs.

D. Environmental Indemnification.

1. *Compliance with Laws.*
Sub-Lessee shall comply with all applicable Environmental Laws (as defined below) with respect to its use and occupancy of the Premises. As used herein, "Environmental Laws" shall mean all legal requirements relating to (i) the protection of the environment, the safety and health of persons (including employees) or the public welfare from actual or potential exposure (or effects of exposure) to any actual or potential release, discharge, disposal or omission (whether past or present) of any Hazardous Materials (as hereinafter defined) or (ii) the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of any Hazardous Materials. As used herein, the term "Hazardous Materials" shall include any biologically active, chemically active, or hazardous substances or materials and such other hazardous or toxic substances or wastes as are identified, defined or listed in any state or federal statutes or regulations

2. *Indemnity by Sub-Lessee.*
Sub-Lessee shall indemnify, defend and hold harmless Landlord and Lessor and their authorized representatives and their respective officers, directors, shareholders, partners, trustees, members, agents, employees, property manager, contractors, lenders and all persons, and entities claiming through any of these persons or entities ("Landlord/Lessor Parties"), from and against any and all claims, fines, suits, losses, costs, liabilities, demands, expenses, actions and judgments (collectively "Claims") of every kind and character arising from the storage, generation, release, handling, treatment, transportation, or disposal of any Hazardous Materials in or around the Premises caused or permitted (whether accidental, intentional, or negligently) by any Sub-Lessee Party. Expenses related to such Claims may include, without limitation, any and all expenses (including legal and professional fees) Landord, Lessor and/or any Landlord/Lessor Parties may incur (i) to comply with Laws, (ii) in studying or remedying any Hazardous Materials from in or around the Premises, and (iii) for any fines, penalties, or other sanctions assessed upon Lessor and/or any Lessor Parties.

3. *Indemnity by Lessor.*
Lessor shall indemnify, defend and hold harmless Sub-Lessee and its authorized representatives and their respective officers, directors, shareholders, partners, trustees, members, agents, employees, property manager, contractors, lenders and all persons, and entities claiming through any of these persons or entities ("Sub-Lessee Parties"), from and against any and all claims, fines, suits, losses, costs, liabilities, demands, expenses, actions and judgments (collectively "Claims") of every kind and character arising from the storage, generation, release, handling, treatment, transportation, or disposal of any Hazardous Materials in or around the Property existing at the time of this Sub-Lease or caused or permitted (whether accidental, intentional, or negligently) by any Lessor Party. Expenses related to such Claims may include, without limitation, any and all expenses (including legal and professional fees) Sub-Lessee and/or any Sub-Lessee Parties may incur (i) to comply with Laws, (ii) in studying or remedying any Hazardous Materials from in or around the Premises, and (iii) for any fines, penalties, or other sanctions assessed upon Sub-Lessee and/or any Sub-Lessee Parties.

E. Inability to Perform
If Landlord or Lessor is unable to perform, or is delayed in performing, any construction, installations, decorations, repairs, alterations, additions or improvements under this Sub-Lease, or is unable to fulfill or is delayed in fulfilling any of its other obligations under this Sub-Lease by reason of acts of God, accidents, breakage, repairs, strikes, lockouts, other labor disputes, inability to obtain utilities or materials or by any other reason beyond Landlord's reasonable control, then no inability or delay by Landlord shall constitute an actual or constructive eviction, in whole or in part, or entitle Sub-Lessee to any abatement or diminution of Monthly Rent or Additional Rent or relieve Sub-Lessee from any of its obligations under this Sub-Lease or impose any liability upon Landlord or Lessor or their agents by reason of inconvenience, annoyance,

interruption, injury or loss to or interference with Sub-Lessee' business or use and occupancy or quiet enjoyment of the Premises or any loss or damage occasioned thereby.

F. Notices.
Any notices required or given under this lease shall be valid if in writing and sent to the addresses set forth below. Notices shall be deemed given: (i) on the date and time of hand delivery; (ii) three (3) days after being deposited in the United States Mail, postage pre-paid, by certified mail, return receipt requested; (iii) upon delivery if sent by overnight delivery or other courier service.

Lessor:	Sub-Lessee:
Holston Medical Group, P.C. 2323 N. John B. Dennis Hwy. Kingsport, TN 37660	Meadowview ASC, LLC 2323 N. John B. Dennis Hwy. Kingsport, TN 37660

G. Waiver.
No delay or omission in the exercise of a right or remedy of Lessor shall impair such right or be deemed to be a waiver. Acceptance by Lessor of delinquent Monthly Rent shall not be a waiver of any other default; it shall only be a waiver of timely payment of the Monthly Rent received. Acceptance by Lessor of any late performance by Sub-Lessee shall not be a waiver of the default unless stated in writing by Lessor.

H. Force Majeure.
Except as expressly provided otherwise herein, if the performance by either party hereunder, except payment of rent, is delayed or hindered due to Acts of God, strikes, riots, fire, flood, war, delay of carriers, material shortages, embargoes, inclement weather, regulatory requirements or other similar happenings beyond the control of either party, the time for performance hereunder shall be extended to such time as performance can be commenced and completed with all due diligence commensurate with such delay.

I. Eminent Domain
In the event twenty percent (20%) or more of the Premises is taken by condemnation or by right of eminent domain, this Sub-Lease shall terminate and expire on the date possession is taken by the condemnor, and the Basic Annual Rent and Additional Rent shall be apportioned and paid in full to that date. In the event of a partial taking of less than twenty percent (20%) of the Premises, this Sub-Lease shall continue unless the continuation shall not be economically feasible. If this Sub-Lease continues, Landlord has agreed through the Prime Lase to repair and restore at its own expense, as speedily as circumstances permit the Premises as a complete unit of substantially the same proportionate usefulness, design and construction as existing immediately before the taking. Lf the parties cannot otherwise agree, the determination of economic feasibility shall be determined by arbitration. During the period required for repair and restoration, the Monthly Rent and Additional Rent shall be abated proportionately based on the extent to which the making of repairs shall interfere with the business carried on by Sub-Lessee in the Premises, subject to arbitration if the parties cannot agree on the extent of interference. Under the Prime Lease, Landlord's obligation to repair and restore the Premises is subject to the prior right of Landlord's lender to receive the proceeds from any condemnation. Any obligation of Landlord shall be limited to the extent condemnation proceeds are received by Landlord for these repairs.

J. No Merger
There shall be no merger of this Sub-Lease or of the leasehold estate hereby created by reason of the fact that the same person or entity may acquire or hold, directly or indirectly, this Sublease, the Prime Lease or the leasehold estates thereby created or any interest in this Sub-Lease or such leasehold estate.

K. No Brokers.
The parties acknowledge that, except for Excess Space Retail Services, Inc. and Brookside Properties, Inc., there were no brokers or agents involved in obtaining this Sub-Lease and each agree to hold the other harmless from any claims for commission asserted through it.

L. Captions.
The captions of the paragraphs of this Sub-Lease are for convenience only and shall not affect the interpretations of any provision of this Sub-Lease.

M. Choice of Law.
This Sub-Lease shall be construed and enforced under the laws of the state of Tennessee.

N. Counterparts.
This Sub-Lease may be executed in counterparts, all of which shall be one and the same lease.

O. Entire Agreement; Amendment.
This Sub-Lease contains the entire agreement of the parties with respect to any matter mentioned in this Sub-Lease. No prior agreement or understanding shall be effective for any purpose. This Sub-Lease may be amended only by an agreement in writing signed by Lessor and Sub-Lessee.

P. Severability.
A final determination by a court of competent jurisdiction that any provision of this Sub-Lease is invalid shall not affect the validity of any other provision.

Q. Successors.
Subject to the provisions of this Sub-Lease restricting assignment and subleasing by Sub-Lessee, and releasing Lessor upon sale of the Building, all provisions of this Sub-Lease shall bind and inure to the benefit of the parties to this Sub-Lease and their respective heirs, legal representatives and successors in interest.

R. Time.
Time if the essence of this Sub-Lease and of every provision in which time for performance is a factor.

This Sub-Lease is entered into between the parties as of the day and date first written above,

Holston Medical Group, P.C.

Scott R. Fowler, J.D., M.D., President

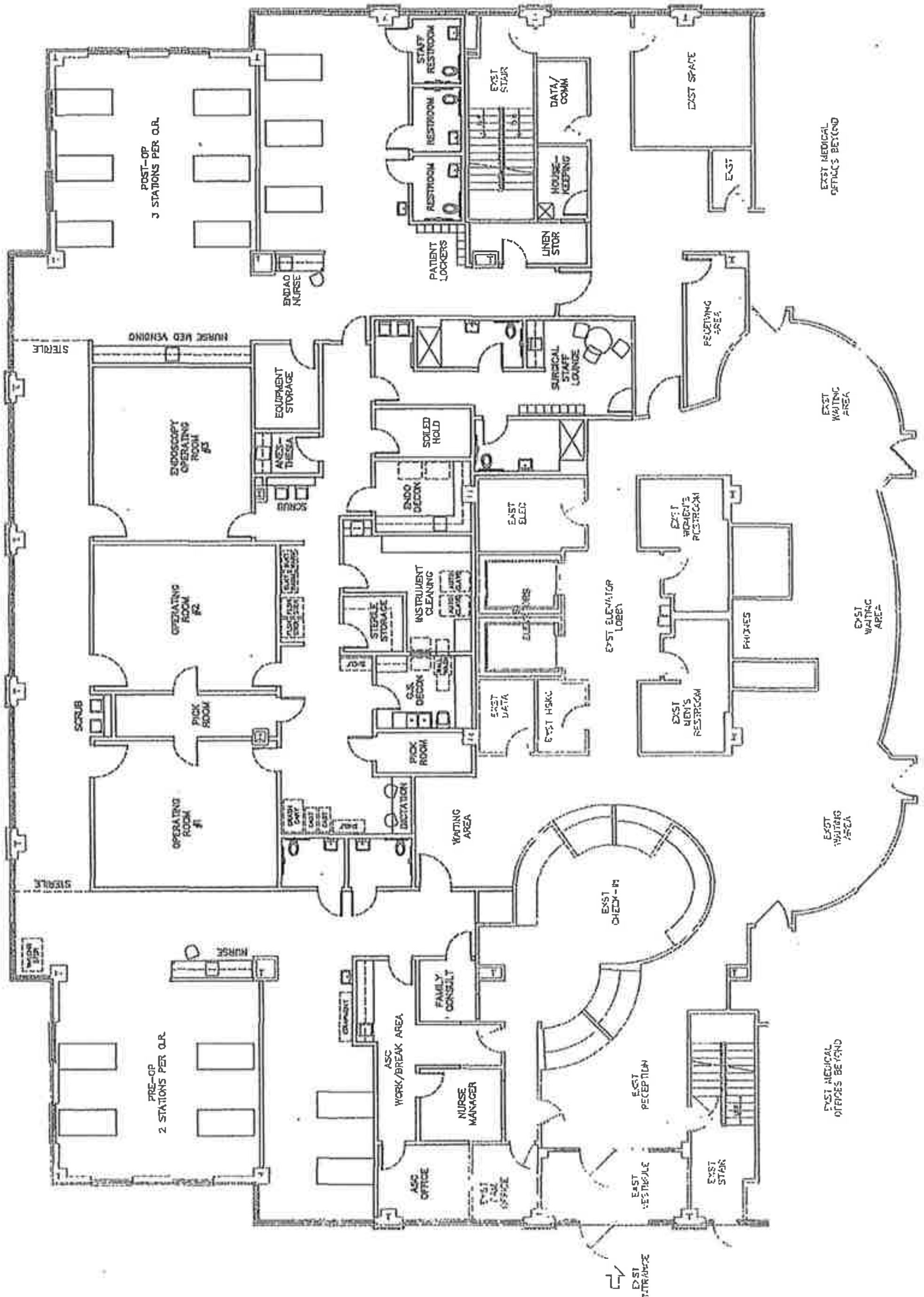
Date: July 24, 2018

Meadowview ASC, LLC

Scott R. Fowler, J.D., M.D., Sole Member

Date: July 24, 2018

Supplemental #1
July 23, 2018
3:09 P.M.



1 **Proposed ASC Floor Plan**
NOT TO SCALE

STUDIO FOUR DESIGN INC. ARCHITECTURE & INTERIORS 414 Clinch Ave, Knoxville, TN 37902 p 865 523-5001 f 865 523-5003 studiofourdesign.com	Meadowview ASC, LLC 2033 Meadowview Lane Kingsport, TN 37660	Project Phase: CON Application Issue Date: 06.01.2018 Revisions No. Descripton / Date	Job Number: 17156.00 Partial Floor Plan A2

Attachment Section A, 6B(2)

Lease Exhibit A

Supplemental #1

Meadowview July 23, 2018
3:09 P.M.

THIS LEASE AGREEMENT is made and entered into effective this 7th day of October, 2003, by and between HMG MEADOWVIEW, L.L.C., a Tennessee limited liability company, hereinafter referred to as "Landlord" and HOLSTON MEDICAL GROUP, P.C., a Tennessee professional corporation, hereinafter referred to as "Tenant".

WITNESSETH

1. <u>GRANT OF LEASE</u>. For and in consideration of the payment by Tenant of the rent hereinafter set out, the performance by the Tenant of the covenants and agreements herein contained and subject to all the provisions hereinafter set forth, Landlord does hereby let and demise to Tenant and Tenant does take and hire from Landlord that certain office building to be constructed by Landlord on a tract of land located in the City of Kingsport, 13th Civil District of Sullivan County, Tennessee, and being Lot 3, Division of Eastman Credit Union Property, as shown on Plat of record in the Register's Office for Sullivan County at Blountville, Tennessee, in Plat Book 51, at page 433; and being the property conveyed to Landlord by deed dated September 17, 2003, and of record in the Register's Office in Book 2012C, at page 360 (the "Property"). The office building shall be constructed on the Property in the manner as shown on the plans designated as Exhibit "A", which Exhibit is attached to this Lease and specifically incorporated herein by reference (the "Premises").

2. <u>BASIC LEASE PROVISIONS</u>. (a) Net rentable area of Premises is 64,200 square feet of which 17,000 square feet is designated as "Business Office Suites", 34,700 square feet is designated as "Clinical Practice Suites" and ~~12,500 square feet is~~ Curr 15,737 designated as the "Outpatient Diagnostic Imaging Center".

(b) Lease Term: Fifteen (15) years with one option to renew for an additional five (5) years.

(c) Initial Basic Annual Rent:

32. MISCELLANEOUS. (a) This Lease contains the entire agreement between the parties and cannot be changed or terminated except by a written instrument subsequently executed by the parties.

(b) The terms, covenants and conditions of this Lease shall bind and inure to the benefit of Landlord and Tenant and their respective personal representatives, successors and permitted assigns.

(c) This Lease shall be governed by and construed in accordance with the laws of the State of Tennessee.

(d) Any provision of this Lease which shall prove to be invalid, void, illegal or unenforceable shall not impair or invalidate any other provisions of this Lease and all other provisions of this Lease shall remain in full force and effect.

(e) Time is of the essence of this Lease and each of its provisions in which performance is a factor.

33. EXHIBITS. Exhibit "A" - Location of Premises and Building/Premises Plans
Exhibit "B"- Tenant Improvements
Exhibit "C"- Building/Premises Rules and Regulations (Attached)

IN WITNESS WHEREOF, this Lease has been duly executed in multiple originals by the parties as of the date first above written.

LANDLORD: HMG MEADOWVIEW, L.L.C.

By: J. R. Kilgore

Secretary
(Title)

Supplemental #1
July 23, 2018
3:09 P.M.

TENANT: HOLSTON MEDICAL GROUP, P.C.

By: Jerry Miller

President
(Title)

STATE OF TENNESSEE :
: ss.
COUNTY OF SULLIVAN :

Personally appeared before me, the undersigned, a Notary Public in and for the aforesaid state and county, Craig M. Kilgore, with whom I am personally acquainted and who, upon oath, acknowledged himself to be the Secretary of HMG Meadowview, L.L.C., the within-named bargainor, a Limited Liability Company, and that he as such Secretary, being authorized to do so, executed the foregoing instrument for the purposes therein contained by signing the name of the Limited Liability Company by himself as Secretary.

WITNESS my hand and official seal this 21st day of October, 2003.

Lee L. Chase
Notary Public

My commission expires:

01/31/2007

STATE OF TENNESSEE :
: ss.
COUNTY OF SULLIVAN :

Personally appeared before me, the undersigned, a Notary Public in and for the aforesaid state and county, Jerry L. Miller, with whom I am personally acquainted and who, upon oath, acknowledged himself to be the President of Holston Medical Group, P.C., the within-named bargainor, a corporation, and that he as such President, being authorized to do so, executed the foregoing instrument for the purposes contained therein by signing the name of the corporation by himself as President.

WITNESS my hand and official seal at office this 21st day of October, 2003.

Lee L. Chase
Notary Public

My Commission Expires:

01/31/2007

2HMGMeadowviewLease/jm

THIS INSTRUMENT PREPARED BY:
Wilson Worley Moore Gamble & Stout, P.C.
2021 Meadowview Lane, 2nd Floor
P.O. Box 88
Kingsport, Tennessee 37662

ASSIGNMENT OF LEASES

THIS ASSIGNMENT OF LEASES ("Assignment") is made and entered into effective this 10th day of May, 2007, by and between HMG MEADOWVIEW, L.L.C., a Tennessee Limited Liability Company, (the "Assignor") and ZIEGLER - TENNESSEE 14, LLC, a Wisconsin Limited Liability Company (the "Assignee").

RECITALS:

(a) Assignor and Ziegler Health Care Real Estate Fund II, LLC ("Ziegler") entered into an Agreement of Sale and Purchase (the "Agreement") with an effective date of March 21, 2007, regarding the purchase and sale of certain assets of Assignor (the "Property") located at 2033 Meadowview Lane, Kingsport, Tennessee.

(b) Pursuant to that Assignment and Assumption of Agreement of Sale and Purchase between Ziegler and Assignee dated May 9, 2007, Ziegler set over and assigned to Assignee all of Ziegler's obligations, right, title and interest in, under and to the Agreement and Assignee accepted the assignment and agreed to comply with all of the terms, covenants and conditions binding upon Ziegler pursuant to the Agreement.

(c) Section 6(k)(iii) of the Agreement requires Assignor to assign to Assignee all of Assignor's right, title and interest in an to the Leases, the Guarantees and the Security Deposits held by Assignor pursuant to the Leases, together with an original executed copy of the each of the Leases and Guarantees.

NOW THEREFORE, for good and valuable consideration, the receipt and legal sufficiency of which is hereby expressly acknowledged, Assignor and Assignee, intending to be legally bound, enter into this Assignment.

Supplemental #1
July 23, 2018
3:09 P.M.

MASTER LEASE AMENDMENT TO MEADOWVIEW PROFESSIONAL BUILDING LEASE

THIS MASTER LEASE AMENDMENT TO MEADOWVIEW PROFESSIONAL BUILDING LEASE ("**Amendment**") is dated this 21st day June, 2018, by and between **ZIEGLER-TENNESSEE 14, LLC,** a Wisconsin limited liability company, as successor in interest to HMG Meadowview, LLC ("**Landlord**"), and **HOLSTON MEDICAL GROUP, P.C.,** a Tennessee professional corporation ("**Tenant**").

WITNESSETH

WHEREAS, Landlord and Tenant are parties to that certain medical office building lease, dated October 7, 2003, as amended by that certain First Amendment to Lease, dated May 1, 2007 and as further amended by that certain Second Amendment to Lease Agreement, dated August 23, 2010 ("collectively, the "**Suites 100/200 Lease**"), whereby Tenant leases approximately 37,144 rentable square feet known as Suites 100 and 200 in the building commonly known as the Meadowview Professional Building, located at 2033 Meadowview Lane, Kingsport, Tennessee (the "**Property**"), and as more particularly described in the Lease;

WHEREAS, Landlord and Tenant are also parties to that certain medical office building lease, dated March 14, 2007, as amended by that certain First Amendment to Lease Agreement, dated August 23, 2010 (collectively, the "**Suite 110 Lease**," and collectively with the Suites 100/200 Lease, the "**Leases**"), whereby Tenant leases approximately 5,076 rentable square feet known as Suite 110 at the Property, as more particularly described in the Lease;

WHEREAS, Landlord and Tenant acknowledge and agree that from and after the date hereof (as hereinafter defined), (a) the Suites 100/200 Lease and Suite 110 Lease shall be combined into the Suites 100/200 Lease such that the Suites 100/200 Lease shall be the only lease agreement in effect between Landlord and Tenant for the Property; (b) the terms and conditions of the Suites 100/200 Lease shall supersede in their entirety the terms and conditions in all other leases between Landlord and Tenant relating to any portion of the Property; and (c) this Amendment is intended to amend those provisions in the Suites 100/200 Lease as expressly provided herein;

WHEREAS, Landlord and Tenant desire to amend the Suites 100/200 Lease, as set forth in this Amendment.

AGREEMENT

NOW, THEREFORE, Landlord and Tenant, in consideration of the mutual covenants and agreements herein contained, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound hereby, covenant and agree as follows:

1. Recitals; Capitalized Terms. The above recitals are hereby incorporated into this Amendment. Capitalized terms used herein but not defined shall have the meaning ascribed to them in the Suites 100/200 Lease.

2. Premises. Commencing on the Effective Date (as defined below), the "Premises" shall consist of the following: Suite 100, Suite 110 and Suite 200. The total rentable square footage of the Premises shall be equal to forty-two thousand two hundred twenty (42,220) square feet.

3. Term. The Lease Term shall be extended for an additional one-hundred ninety-six (196) months, commencing on September 1, 2018 (the "**Effective Date**") and terminating on December 31, 2034.

4. Lease Renewals.

(a) The Lease Term shall automatically renew for successive five (5) year periods (collectively, the "**Extended Terms**" and each, an "**Extended Term**"), unless Tenant provides written notice to Landlord at least twelve (12) months prior to the expiration of then current Lease Term, of Tenant's election to terminate the Lease. Except as otherwise provided, the Extended Terms shall be on the same terms and conditions as set forth in the Lease. All references to the "**Term**" of the Lease or "**Lease Term**" shall, unless the context shall clearly indicate a different meaning, be deemed to constitute a reference to the original Lease Term and the Extended Terms, as the same may be exercised hereunder.

(b) Basic Annual Rent for each lease year of the Extended Terms shall be adjusted to equal the amount of the Basic Annual Rent payable during the immediately preceding Lease Year, as increased by two and 50/100ths percent (2.50%). Section 3(c) of the Suites 100/200 Lease is hereby deleted in its entirety.

(c) All other references to "options to renew" or "renewal options" in the Leases are hereby deleted in their entirety.

5. Tenant's Pro Rata Share: Commencing on the Effective Date, "Tenant's Pro Rata Share" of Operating Expenses shall be sixty-five and seventy-six one-hundredths percent (65.76%).

6. Basic Annual Rent. Commencing on the Effective Date, Basic Annual Rent for the Lease Term shall be paid to Landlord pursuant to the Basic Annual Rent Schedule set forth on the attached Exhibit A.

7. Additional Rent. Section 6(b) is deleted in its entirety and replaced with the following:

6(b) Tenant shall pay to Landlord for each calendar year, or any portion thereof, during the Term of this Lease, as the same may be extended or renewed from time to time, as Additional Rent, its Proportionate Share of Operating Expenses (as such terms are hereinafter defined). As used in this Lease, the term "**Operating Expenses**" shall mean all operating expenses of any kind or nature with respect to the ownership, operation, management, maintenance and repair of the Building, Land and the Property.

If the Building is not fully leased and occupied during all or any portion of any calendar year, Landlord may, using sound accounting and property management principles, adjust all Operating Expenses that are variable (which shall include, without limitation, costs and expenses of utilities and janitorial services and management fees) and, therefore, increase as leasing and occupancy of the Building increases (the "**Variable Components**"), to equal what would have been paid or incurred by Landlord had the Building been fully leased and occupied during such calendar year and the amount so determined shall be deemed to have been Operating Expenses for such year (an "**Equitable Adjustment**"). The Equitable Adjustment will not, in any event, result in Landlord receiving from Tenant and other Building tenants in connection with the Variable Components more than one hundred percent (100%) of the cost of the Variable Components. Landlord may incorporate the Equitable Adjustment in its estimates of Operating Expenses.

Supplemental #1
July 23, 2018
3:09 P.M.

THIS INSTRUMENT PREPARED BY:
Wilson Worley Moore Gamble & Stout, P.C.
2021 Meadowview Lane, 2nd Floor
P.O. Box 88
Kingsport, Tennessee 37662

BOOK 2538C PAGE 0031

THIS DEED, made and entered into this 10th day of May, 2007, by and between HMG MEADOWVIEW, L.L.C., a Tennessee limited liability company, hereinafter referred to as the Party of the First Part, and ZIEGLER - TENNESSEE 14, LLC, hereinafter referred to as the Party of the Second Part.

WITNESSETH

That for and in consideration of the sum of Ten Dollars ($10.00) cash in hand paid and other good and valuable consideration, the receipt of all of which is hereby acknowledged, the Party of the First Part has bargained and sold and by these presents does hereby grant, transfer and convey unto the Party of the Second Part, its successors and assigns, a certain lot or parcel of land and all improvements located thereon and all appurtenances thereto (the "Property") lying and being in the 13th Civil District of Sullivan County, Tennessee, and:

BEING Lot 3, Division of Eastman Credit Union Property, as shown on plat of record in Plat Book 51, at page 433, in the Register's Office for Sullivan County at Blountville, Tennessee to which plat reference is hereby made for more particular description of the Property, and more particularly described as follows:

Commencing from a right-of-way monument found at the northeast corner of a mitered intersection of the northwestern right-of-way of Meadowview Pkwy. (90' R/W) and the northeastern right-of-way of Interstate 181 (Variable R/W); thence with said right-of-way of Interstate 181 N 83°11'09" W a distance of 24.49' to a r/w mon.; thence N 41°01'52" W a distance of 99.96 to a r/w mon.; thence N 41°39' 01" W a distance of 218.14' to a r/w mon.; thence N 46°33'59" W a distance of 132.97' to a r/w mon.; thence N 17°57'05 W a distance of 114.76' to a r/w mon.; thence N 41°14'04"W a distance of 119.32' to a point, said point being The True Point of Beginning; thence continuing with said right-of-way N 41°14'04"W a distance of 504.01' to a r/w mon.; thence N 24°27'32"W a distance of 450.69' to a ½" rebar w/cap; thence leaving said right-of-way S 73°03'10" E a distance of 649.24' to a ½" rebar w/cap; thence S 49°28'44" E a distance of 387.76' to a point; thence S 48°45'25" W a distance of 368.95' to a ½" rebar w/cap; thence S 48°45'25" W a distance of 159.03' to a point, said point being The True Point of Beginning.

The Property has an area of 330084.2 square feet/7.58 acres.

Being the same property conveyed to HMG Meadowview, L.L.C., a Tennessee Limited Liability Company by Deed from Eastman Credit Union recorded on the 17th day of September, 2003 in Book 2012C, at page 360, in the Register's Office for Sullivan County, Tennessee.

TO HAVE AND TO HOLD unto the Party of the Second Part, its successors and assigns, in fee simple forever.

The Party of the First Part covenants with the Party of the Second Part, its successors and assigns, that it is lawfully seized and possessed of the Property; that it has a good and lawful right to convey the same; that the Property is free, clear and unencumbered except for only those matters set forth in the attached Exhibit A (the "Permitted Encumbrances"); and that it will forever warrant and defend the title to the Property against the good and lawful claims of all persons whomsoever.

This conveyance is made expressly subject only to the Permitted Encumbrances.

WITNESS the signature of the Party of the First Part by its duly authorized officer as of the date first above written.

HMG MEADOWVIEW, L.L.C., a Tennessee limited liability company

By: ______________________
Samuel D. Breeding, Chief Manager

STATE OF TENNESSEE :
:s.s.
COUNTY OF SULLIVAN :

Before me, the undersigned notary public of the state and county aforementioned, personally appeared Samuel D. Breeding, with whom I am personally acquainted or proved to me on the basis of satisfactory evidence and who, upon his oath, acknowledged himself to be Chief Manager of HMG Meadowview, L.L.C., the within-named bargainor, a limited liability company, and that he as Chief Manager, being authorized so to do, executed the foregoing instrument for the purpose therein contained by signing the name of the limited liability company by himself as Chief Manager.

WITNESS my hand and official seal at office this 9th day of May, 2007.

Garman Waddell
Notary Public

GORMAN WADDELL
STATE OF TENNESSEE NOTARY PUBLIC
COUNTY OF SULLIVAN

My Commission Expires:
1/3/11

STATE OF TENNESSEE :
: ss.
COUNTY OF SULLIVAN :

I, or we, hereby swear or affirm that the actual consideration for this transfer or value of the property transferred, whichever is greater, is $ 15,350,000.00 which amount is equal to or greater than the amount which the property transferred would command at a fair and voluntary sale.

Affiant

SWORN TO AND SUBSCRIBED before me, this 14th day of May 2007.

Notary Public

HAL E. WILSON
STATE OF TENNESSEE NOTARY PUBLIC
DAVIDSON COUNTY

My commission expires:

8-22-07

Name and Address of Property Owner:

ZIEGLER - TENNESSEE 14, LLC, 250 East Wisconsin Avenue, Suite 2000, Milwaukee, Wisconsin 53202 - Attention: John Sweet

Name and Address of the Person or Entity Responsible for the Payment of the Real Property Tax:

Same as property owner

Property Assessor's Map No. 075, Parcel No. 001.00

2HMGMeadowview-ZieglerDeed/jm

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EXHIBIT A

BOOK 2538C PAGE 0034

PERMITTED ENCUMBRANCES

1. Taxes for the year 2007 not yet due and payable and thereafter.

2. Restrictions, dedications, conditions, reservations, easements and other matters shown on the plat of DIVISION OF EASTMAN CREDIT UNION PROPERTY, as recorded in Plat Book 51, Page(s) 433, but deleting any covenant, condition or restriction indicating a preference, limitation or discrimination based on race, color, religion, sex, handicap, familial status or national origin to the extent such covenants, conditions or restrictions violate 42 USC 3604(c)

3. Covenants, Conditions and Restrictions as set forth in the Deeds recorded in Book 2012C, Page 360 and Book 271A, Page 457, but deleting any covenant, condition or restriction indicating a preference, limitation or discrimination based on race, color, religion, sex, handicap, familial status or national origin to the extent such covenants, conditions or restrictions violate USC 3604(c).

4. Easement for Utilities recorded in Book 105A, Page 8 and Book 105A, Page 9.

MARY LOU DUNCAN
REGISTER OF DEEDS
SULLIVAN COUNTY, TENNESSEE
15 May 2007 TIME 04:10 p
BOOK 2538C PAGE 0031
TAX 56,795.00 C 1.00 CF 2.00
FEE 20.00 TOTAL 56,818.00
RECEIPT NO. 2007-050837

Sullivan County, Tenn, Register of Deeds: Received for record on the 15 day of May, 2007 at 04:10 PM Noted in Note Book 0080 Page 0031

Mary Lou Duncan
Register

6. **Section A, Project Details, Item 6B.2). Floor Plan**

The Floor Plan that is Exhibit A to the Option to Lease identifies 4 operating rooms while the floor plan attached to this item identifies 3 operating rooms.

Please address this discrepancy.

The Floor Plan that is Exhibit A to the Sub-Lease was an early version for the ASC. It was later determined upon further review by architects that certain size adjustments were needed, thus reducing the number of rooms. There are no requirements in the sub-lease that would limit Meadowview ASC's ability to modify the floor plan attached to the sub-lease as Exhibit A. The current floor plan is attached to the revised Sub-Lease submitted in response to Question 5.

7. **Section A, Project Details, Item 12 Square Footage and Cost Per Square Footage Chart**

The applicant identifies 2nd floor, Suite 200 as an existing location. How can this be the case when the CON application is for a new ASTC?

The term "existing location" is meant to convey that the location is an existing structure and is not a new building. There is no existing ASTC at this location. The space that will become Meadowview ASTC is currently vacant space that was part of Suite 200, formerly used for a pediatric practice. It was vacated in October of 2017.

The suite for the proposed ASTC will be numbered 210 and not 200.

Please provide a brief description of the office building including the age of the building, the number of floors, and the businesses by type per floor.

The Meadowview Medical Office Building was completed in 2007. It is comprised of three (3) floors totaling 64,200 square feet.

1st floor:
- Suite 100 - HMG Outpatient Diagnostic Center
- Suite 110 – Clinical office space (currently vacant)

2nd floor:
- Suite 200 – HMG Family Practice
- New suite 210 – proposed ASC

3rd floor:
- Suite 300 – United Health Care (operations center)

Is the proposed space for the ASTC occupied by another entity? If yes, where will that entity relocate?

No, it is vacant.

What is the distance between the proposed ASTC and the hospitals located in Sullivan and Hawkins County?

The following table shows the distance from the site for Meadowview ASC to hospitals located in Sullivan and Hawkins Counties. These numbers are based on a search using http://maps.google.com

From	To	Distance
Meadowview ASC, LLC 2033 Meadowview Ln. Kingsport, TN 37660	**Holston Valley Medical Center 130 W Ravine Rd. Kingsport, TN 37660**	**4.1 Miles**
Meadowview ASC, LLC 2033 Meadowview Ln. Kingsport, TN 37660	**Indian Path Medical Center 2000 Brookside Dr. Kingsport, TN 37660**	**6.4 miles**
Meadowview ASC, LLC 2033 Meadowview Ln. Kingsport, TN 37660	**Hawkins County Memorial Hospital 851 Locust St. Rogersville, TN 37857**	**32.2 miles**
Meadowview ASC, LLC 2033 Meadowview Ln. Kingsport, TN 37660	**Bristol Regional Medical Center 1 Medical Park Blvd. Bristol, TN 37620**	**24.1 miles**

Will the building space be designed for possible future expansion?

Holston Medical Group, P.C. holds the leasehold estate for the entire second floor where the ASTC will be located. If Meadowview ASC desires to expand in the future, HMG will need to move its other clinical offices on the second floor. However, the applicant has not specifically requested its architect to design the space in a way for easy expansion.

8. **Section B, Need, (Specific Criteria –ASTC) Item 2. Need and Economic Efficiencies**

   Please complete the following chart, once for Year 1 and once for Year 2

Year 1:

Operating Rooms	# Cases	Minutes Used (incl. turn-around)	Average Turnaround Time	Schedulable minutes*	% of Schedulable Time Used
Operating Room #1	965 surgeries	91,675 min.	30 min./case	135,000 min.	68%
Operating Room #2	250 surgeries 1,824.5 endos	23,750 min. 82,102.5 min.	30 min./case 15 min./case	135,000 min.	78%
Operating Room #3	250 surgeries 1,824.5 endos	23,750 min. 82,102.5 min.	30 min./case 15 min./case	135,000 min.	78%
Total Surgical Suites	**5,114 cases**	**303,380 min.**	**30 min./surg. 15 min./endo**	**405,000**	**75 %**

Year 2:

Operating Rooms	# Cases	Minutes Used (incl. turn-around)	Average Turnaround Time	Schedulable minutes*	% of Schedulable Time Used
Operating Room #1	1,054 surgeries	100,130 min.	30 min./case	135,000 min.	74%
Operating Room #2	250 surgeries 1,936.5 endos	23,750 min. 87,142.5 min.	30 min./case 15 min./case	135,000 min.	82%
Operating Room #3	250 surgeries 1,936.5 endos	23,750 min. 87,142.5 min.	30 min./case 15 min./case	135,000 min.	82%
Total Surgical Suites	**5,427 cases**	**321,915 min.**	**30 min./surg. 15 min./endo**	**405,000**	**79 %**

*** defined as the summation of the minutes by each room available for scheduled cases Example: 7:30 AM to 4:30 PM, 5 days per week, 50 weeks/ year, equates to 9 hrs/day X 60 min/hr = 540 minutes/day X 5 days/week = 2,700 minutes / week X 50 weeks/year=135,000 schedulable minutes/room X the number of rooms=surgical suite schedulable capacity.**

9. Section B, Need, (Specific Criteria –ASTC) Item 3.

Regarding Attachment Section B, Need, CON Standards, 1, there appears to be multiple inconsistencies between the data provided by the applicant for Years 2015 and 2016 when compared to the JARs on the Department of Health's website.

Please address these inconsistencies.

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The data in the referenced Attachment was provided by the Division of Health Statistics. The reasons for the discrepancies is not known to the applicant.

The data from the individual facility Joint Annual Reports on the website has been substituted in a revised table, which is attached following this response. The revised data reflects higher utilization of the ASTCs in the years 2015 and 2016 than was shown in the originally submitted table.

Several references in the application to the utilization and level of growth of ASTCs in the area have been revised, and replacement pages are attached as part of the group of replacement pages at the end of these Supplemental Responses.

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Year: 2017

Facility Name	County	Type	Operating Rooms	Procedure Rooms	Total Rooms	Operating Room Cases	Procedure Room Cases	Total Cases	Cases per OR	Cases per PR	Cases per Room Total
Bristol Surgery Center	Sullivan	Multi Specialty	4	1	5	1862	541	2403	466	541	481
Kingsport Endoscopy Corporation	Sullivan	Single Specialty	0	3	3	0	6986	6986	N/A	2329	2329
Sullivan Digestive Center	Sullivan	Single Specialty	0	2	2	0	6295	6295	N/A	3148	3148
Kingsport Ambulatory Surgery Center	Sullivan	Multi Specialty	4	1	5	1947	901	2848	487	901	570
The Endoscopy Center of Bristol	Sullivan	Single Specialty	0	3	3	0	7446	7446	N/A	2482	2482
Sapling Grove ASC	Sullivan	Multi Specialty	2	1	3	1367	285	1652	684	285	551
The Center for Digestive Wellness	Sullivan	Single Specialty	0	2	2	0	3368	3368	N/A	1684	1684
Holston Valley Surgery Center	Sullivan	Multi Specialty	4	3	7	3127	3931	7058	782	1310	1008
Mountain Empire Cataract and Eye Surgery Center	Sullivan	Single Specialty	2	1	3	4073	1516	5589	2037	1516	1863
The Regional Eye Surgery Center	Sullivan	Single Specialty	2	1	3	2874	691	3565	1437	691	1188
Renaissance Surgery Center	Sullivan	Multi Specialty	2	1	3	190	1160	1350	95	1160	450
Sullivan County Total/Avg.		**MS = 5; SS = 6**	**20**	**19**	**39**	**15440**	**33120**	**48560**	**772**	**1743**	**1245**

Hawkins County Total/Avg. There are no licensed ASTCs in Hawkins County

Year: 2016

Facility Name	County	Type	Operating Rooms	Procedure Rooms	Total Rooms	Operating Room Cases	Procedure Room Cases	Total Cases	Cases per OR	Cases per PR	Cases per Room Total
Bristol Surgery Center	Sullivan	Multi Specialty	4	1	5	2092	793	2885	523	793	577
Kingsport Endoscopy Corporation	Sullivan	Single Specialty	0	3	3	0	8053	8053	N/A	2684	2684
Sullivan Digestive Center	Sullivan	Single Specialty	0	2	2	0	6453	6453	N/A	3227	3227
Kingsport Ambulatory Surgery Center	Sullivan	Multi Specialty	4	1	5	2144	919	3063	536	919	613
The Endoscopy Center of Bristol	Sullivan	Single Specialty	0	3	3	0	8527	8527	N/A	2842	2842
Sapling Grove ASC	Sullivan	Multi Specialty	2	1	3	1348	782	2130	674	782	710
The Center for Digestive Wellness	Sullivan	Single Specialty	0	2	2	0	2997	2997	N/A	1499	1499
Holston Valley Surgery Center	Sullivan	Multi Specialty	4	3	7	2375	3630	6005	594	1210	858
Mountain Empire Cataract and Eye Surgery Center	Sullivan	Single Specialty	2	1	3	3795	1405	5200	1898	1405	1733
The Regional Eye Surgery Center	Sullivan	Single Specialty	2	1	3	2627	813	3440	1314	813	1147
Renaissance Surgery Center	Sullivan	Multi Specialty	2	1	3	226	1099	1325	113	1099	442
Sullivan County Total/Avg.		**MS = 5; SS = 6**	**20**	**19**	**39**	**14607**	**35471**	**50078**	**730**	**1867**	**1284**

Hawkins County Total/Avg. There are no licensed ASTCs in Hawkins County

Year: 2015

Facility Name	County	Type	Operating Rooms	Procedure Rooms	Total Rooms	Operating Room Cases	Procedure Room Cases	Total Cases	Cases per OR	Cases per PR	Cases per Room Total
Bristol Surgery Center	Sullivan	Multi Specialty	4	1	5	1963	693	2656	491	693	531
Kingsport Endoscopy Corporation	Sullivan	Single Specialty	0	3	3	0	7123	7123	N/A	2374	2374
Sullivan Digestive Center	Sullivan	Single Specialty	0	2	2	0	4790	4790	N/A	2395	2395
Kingsport Ambulatory Surgery Center	Sullivan	Multi Specialty	4	1	5	2137	616	2753	534	616	551
The Endoscopy Center of Bristol	Sullivan	Single Specialty	0	3	3	0	7777	7777	N/A	2592	2592
Sapling Grove ASC	Sullivan	Multi Specialty	2	1	3	1320	1195	2515	660	1195	838
The Center for Digestive Wellness	Sullivan	Single Specialty	0	2	2	0	3091	3091	N/A	1546	1546
Holston Valley Surgery Center	Sullivan	Multi Specialty	4	3	7	2685	3171	5856	671	1057	837
Mountain Empire Cataract and Eye Surgery Center	Sullivan	Single Specialty	2	1	3	3567	1275	4842	1784	1275	1614
The Regional Eye Surgery Center	Sullivan	Single Specialty	2	1	3	1971	1404	3375	986	1404	1125
Renaissance Surgery Center	Sullivan	Multi Specialty	2	1	3	312	1064	1376	156	1064	459
Sullivan Total/Avg.		**MS = 5; SS = 6**	**20**	**19**	**39**	**13955**	**32199**	**46154**	**698**	**1695**	**1183**

HawkinsCounty Total/Avg. There are no licensed ASTCs in Hawkins County

Source: Joint Annual Reports

10. Section B, Need Item A. (Specific Criteria –ASTC) Item 10, Patient Safety and Quality of Care: Health Care Workforce (b).

For the physicians listed, please identify the hospitals where these physicians have admitting privileges.

Please see the table below.

Surgeon	Specialty	Indian Path MC	Holston Valley MC	Bristol Regional MC	Hawkins County Memorial Hospital
Seluk	ENT		X		
Bailey	GI	X	X		X
Shone	GI	X	X		
Holt	GS	X			
Hunt	GS	X	X		
Stanski	GS	X			
Thomas	GS	X			
Krzyminski	OB/GYN	X	X		
Mitchell	OB/GYN	X	X		
Schalau	OB/GYN	X	X		
Stevens	OB/GYN	X	X		
Krein	Ortho.		X		
Park	Ortho		X		
Remy	Ortho		X		
Youssef	Ortho		X		
Lawrence	Orth/Pod.		X		
Francisco	Peds		X		
Bass	Pulmn.		X		

The Letters of Interest attachment only includes signatures from 15 of the 18 physicians listed.

Please explain.

The list consists of physicians employed by Holston Medical Group, P.C., all of whom are expected to perform cases at Meadowview ASC. At the time signatures were gathered, two physicians were on vacation and one physician is on extended leave. An updated Letter of Interest with two additional signatures is attached following this response. It is not known when the third signature (the surgeon who is on extended leave) can be obtained, but that surgeon has verbally indicated she wants to be an investor in the surgery center.

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LETTER OF INTEREST
IN
MEADOWVIEW ASC, LLC

We, the undersigned employees of Holston Medical Group, P.C., are surgeons or proceduralists currently performing surgeries and other procedures at local hospitals and surgery centers.

It is our desire that an independent, physician-owned, surgery center be built to accommodate our surgeries and procedures in the local community. This is desired in order to provide a patient-focused environment consistent with our practice in a large multi-specialty medical group, to enable contracting that will meet the needs of our value-based arrangements with managed care organizations, and to give us more direct input and control over the center.

This has been an internal objective for quite some time and we fully intend and plan to be investors and owners of Meadowview ASC, LLC, upon its completion.

Lawrence Bailey, M.D.

Jason Park, M.D.

Leon Bass, M.D.

Lindsay Remy, M.D.

Mary Francisco, M.D.

Daphne Schalau, M.D.

Steven Holt, M.D.

Crystal Seluk, M.D.

Jeffrey Hunt, M.D.

Dallas Shone, M.D.

Steven Krein, M.D.

Cheryl Stanski, M.D.

D.O.
Rebecca Krzyminski, ~~M.D.~~ D.O.

Christy Stevens, ~~M.D.~~ D.O.

Chad Lawrence, M.D.

Thomas Thomas, M.D.

Christopher R. Mitchell MD
Christopher Mitchell, M.D.

Ashraf Youssef, M.D.

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11. Section B, Need, Item E (Existing Services)

Please complete the following charts using JAR data.

ASTC	*Type	2015				2016				2017				'15-'17	'15-'17
	M/S	# ORs	# OR Cases	# PRs	# PR Cases	# ORs	# OR Cases	# PRs	# PR Cases	# ORs	# OR Cases	# PRs	# PR Cases	OR % Chng.	PR % Chng.
Kingsport Endo.	S	0	0	3	7123	0	0	3	8053	0	0	3	6986	0	-1.9%
Sullivan DC	S	0	0	2	4790	0	0	2	6453	0	0	2	6295	0	31.4%
Endo Cntr. Bristol	S	0	0	3	7777	0	0	3	8527	0	0	3	7446	0	-4.3%
Cntr. for Dig. Wel.	S	0	0	2	3091	0	0	2	2997	0	0	2	3368	0	9%
Mountain Emp. Cat. & Eye	S	2	3567	1	1275	2	3795	1	1405	2	4073	1	1516	14.2%	18.9%
Regional Eye SC	S	2	1971	1	1404	2	2627	1	813	2	2874	1	691	45.8%	-50.8%
Single Specialty Total/Average		4	5538	12	25,460	4	6422	12	28,248	4	6947	12	26,302	25.4%	3.3%
Bristol SC	M	4	1963	1	693	4	2092	1	793	4	1862	1	541	-5.1%	-21.9%
Kingsport ASC	M	4	2137	1	616	4	2144	1	919	4	1947	1	901	-8.9%	46.3%
Sapling Grove ASC	M	2	1320	1	1195	2	1348	1	782	2	1367	1	285	3.6%	-76.1%
Holston Valley SC	M	4	2685	3	3171	4	2375	3	3630	4	3127	3	3931	16.5%	24%
Renaissance SC	M	2	312	1	1064	2	226	1	1099	2	190	1	1160	-39.1%	9%
Multi- Specialty Total/Average		16	8417	7	6739	16	8185	7	7223	16	8493	7	6818	0.9%	1.2%
Grand Total/Average		20	13,955	19	32,199	20	14,607	19	35,971	20	15,440	19	33,120	10.6%	2.9%

***M = multi-specialty and S = single specialty**

Please complete the following table using 2017 Joint Annual Report Data.

ASTC	# ORs	# OR Cases	# Cases per OR	% of Meeting 884 Minimum		# PRs	# PR Cases	# Cases per PR	% of Meeting 1,867 Minimum
Kingsport Endo.	0	0	0	N/A		3	6986	2329	125%
Sullivan DG	0	0	0	N/A		2	6295	3148	169%
Endo Cntr. Bristol	0	0	0	N/A		3	7446	2482	133%
Cntr. for Dig. Wel.	0	0	0	N/A		2	3368	1684	90%
Mountain Emp.	2	4073	2037	230%		1	1516	1516	81%
Reg. Eye SC	2	2874	1437	163%		1	691	691	37%
Single-Specialty Subtotal	4	6947	1737	196%		12	26,302	2192	117%
Bristol SC	4	1862	466	53%		1	541	541	29%
Kingsport ASC	4	1947	487	55%		1	901	901	48%
Sapling Grove ASC	2	1367	684	77%		1	285	285	15%
Holston Valley SC	4	3127	782	89%		3	3931	1310	70%
Renaissance SC	2	190	95	11%		1	1160	1160	62%
Multi-specialty ASTCs Subtotal	16	8493	531	60%		7	6818	974	52%
Grand Total/Average	20	15,440	772	87%		19	33,120	1743	93%

Please provide the 2 county service area hospital outpatient surgical utilization from the latest three year period in the following table:

County	Hospital	2014 Cases*	2015 Cases*	2016 Cases	% Change 2014-2016
Sullivan	Indian Path Medical Ctr.	3720 (e)	3505 (e)	4401	18.3%
Sullivan	Bristol Regional Med. Ctr.	8864 (e)	9003 (p)	8796	-0.8%
Sullivan	Holston Valley Med. Ctr.	11,900 (e)	11,079 (p)	10,927	-8.2%
Hawkins	Wellmont Hawkins Co. Hosp.	523 (e)	509 (e)	660	14.7%
	Total	**25,007**	**24,096**	**24,784**	**-0.9%**

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* Prior to 2016 the JARs did not reflect "cases," but rather "encounters" and "procedures." For this table, the numbers of "encounters" was used if both categories are reported in the JAR; if only one category is reported, then that reported number is used. The category reported is denoted as "(e)" or "(p)"

In your response, please briefly describe the impact, if any, this project will have on the utilization of hospital surgical suites in the 2 county service area.

Below is a table reflecting the numbers of surgeries performed in the surgical suites by HMG surgeons June 2017 – June 2018, the estimated number of surgical cases that will be moved from each to Meadowview, and the remaining number of cases that HMG surgeons will continue to perform at each existing facility.

These are estimates only, and represent a roughly 72% move rate from each facility. These numbers can be effected by patient preference and any requirements imposed by their primary insurance carrier, needs for any specialized services not available at the applicant's ASTC, and any physical conditions deemed to pose an unacceptable risk by anesthesiology.

Surgeon	Specialty	Holston Valley ASC	Sapling Grove ASC	Indian Path MC	Kingsport ASC	Holston Valley MC	Total
Seluk	ENT	50		28	26	45	149
Bailey	GI	1,522		33		45	1,600
Shone	GI	1,956		21		80	2,057
Holt	GS	197	219	239	219		874
Hunt	GS	378		29		11	418
Stanski	GS	88		159		1	248
Thomas	GS	186		240	3	1	430
Krzyminski	OB/GYN	36		23			59
Mitchell	OB/GYN	37		11			48
Schalau	OB/GYN	9		52			61
Stevens	OB/GYN	34		7			41
Krein	Ortho.	46					46
Park	Ortho	180					180
Remy	Ortho	24			1		25
Youssef	Ortho	219					219
Lawrence	Orth/Pod	72		1	26		99
Franscisco	Peds	475		20			495
Bass	Pulmn.	40		17			57
Total HMG Cases		**5,549**	**219**	**880**	**248**	**183**	**7,106**
HMG Cases Moving	(approx. 72%)	**(3,995)**	**(158)**	**(634)**	**(179)**	**(132)**	**(5,116)***
Remaining HMG Cases		**1,554**	**61**	**246**	**69**	**51**	**1,990**

*Total cases moved do not match exactly with projected Year 1 total cases due to rounding.

12. Section B, Need, Item F (Applicant)

Please complete the following table for the most recent year available identifying the number of cases performed at area outpatient surgical facilities:

The following is for the period of June 2017 – June 2018.

Surgeon	Specialty	Holston Valley ASC	Sapling Grove ASC	Indian Path MC	Kingsport ASC	Holston Valley MC	Total
Seluk	ENT	50		28	26	45	149
Bailey	GI	1522		33		45	1600
Shone	GI	1956		21		80	2057
Holt	GS	197	219	239	219		874
Hunt	GS	378		29		11	418
Stanski	GS	88		159		1	248
Thomas	GS	186		240	3	1	430
Krzyminski	OB/GYN	36		23			59
Mitchell	OB/GYN	37		11			48
Schalau	OB/GYN	9		52			61
Stevens	OB/GYN	34		7			41
Krein	Ortho.	46					46
Park	Ortho	180					180
Remy	Ortho	24			1		25
Youssef	Ortho	219					219
Lawrence	Orth/Pod.	72		1	26		99
Francisco	Peds	475		20			495
Bass	Pulmn.	40		17			57
Total		**5549**	**219**	**880**	**248**	**183**	**7106**

The floor plan provided by the applicant indicates that OR #3 is an Endoscopy Operating Room. According to the projected data by specialty, in Year 2 approximately 60% of the cases will be endoscopies. Every other ASTC in the service area performs endoscopies in a procedure room. Please explain why OR #3 is not a procedure room.

All OR's are intended to be multi-functioning to perform any/all types of procedures/surgeries. Endoscopy procedures consistently have an early start time and produce quick turn-over and complete by lunch. This will allow the room to be turned over and used for other specialties for afternoon procedures/surgeries. All rooms are designed to be used as multi-use to fit surgeons' needs and maximize efficiencies.

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13. Section B. Economic Feasibility Item B Funding

Please provide a breakdown of the funding for the project from: cash reserves, loan from HMG, and physician investment.

If the estimated dollars from physician investors is less than projected will HMG cover the shortfall?

The start-up, out of pocket costs are those identified in Section A of the Project Cost Chart. These costs total $3,025,946. These will be funded by:

Loan from HMG:	$1,500,000
Investment capital:	Min. of $1,440,000 (18 investors @ $80,000 each)
Total immediately available:	$2,940,000

The investment capital is a conservative estimate because it does not take into account investments from non-HMG physicians. If there were to be a short-fall, however, additional funds could be available from increasing and/or re-structuring the loan from HMG.

The remaining project costs identified in Sections B and C of the Project Cost Chart will be paid over time through leases (10 years for the building and land lease and 5 years for the big ticket equipment lese). These will be paid through operating revenues of the surgery center.

14. Section B. Economic Feasibility Item D Projected Data Chart

According to the draft management agreement, the management fee is supposed to be 5% of gross revenue which calculates to an amount over $600,000.

Please explain why the management fee listed is $263,645.

The parties intend for the fee to be 5% of <u>net</u> revenue. The management agreement attached to the application is a draft only, and will be corrected prior to execution by the parties.

The amounts of management fees on the Projected Data Chart do not equate to exactly 5% of net revenues. It is believed these discrepancies are due to rounding and perhaps to the failure to substitute numbers in various edits to the PDC. However, the discrepancies are small in amount and relatively insignificant.

15. Section B. Economic Feasibility Item F2. Net Operating Margin Ratio

The net operating margin ratios do not quite match up with the data in the Projected Data Chart.

Please make the necessary corrections.

The corrected numbers are reflected below.

Year	2nd Year previous to Current Year	1st Year previous to Current Year	Current Year	Projected Year 1	Projected Year 2
Net Operating Margin Ratio	N/A	N/A	N/A	0.265	0.276

A Replacement Page 38 is included in the replacement pages attached at the end of these Supplemental Reponses.

16. Section B. Economic Feasibility Item F.3. Capitalization Ratio

Please provide the requested capitalization ratio for HMG.

The capitalization ratio for HMG is 39.68

17. Section B. Economic Feasibility Item G Projected Payor Mix

There appears to be a typo in the projected Payor Mix Chart in the Commercial/Other Managed Care row.

Please make the necessary corrections and submit a replacement page.

The correction has been made on the Replacement Page 39, which is attached at the end of these Supplemental Reponses.

18. Section B. Contribution to Orderly Development Item C.1.

Please describe the recruitment plan for nurses, techs, and administrative personnel needed to adequately staff the proposed ASTC.

HMG Medical Management, LLC, has a history of managing ambulatory surgical treatment centers. It has access to a robust set of recruitment infrastructure through Holston Medical Group, P.C., and has extensive relationships with nurses, techs and other administrative personnel.

The Manager will recruit staff for the ASTC through its normal hiring processes including, but not limited to, posting such positions on its website as well as print and/or electronic media outlets it has used successfully in the past.

19. Section B. Quality Measures

Please verify and acknowledge the applicant will be evaluated annually on whether the proposal will provide health care that meets appropriate quality standards upon the following factors:

(a) Whether the applicant commits to maintaining an actual payor mix that is comparable to the payor mix projected in its CON application, particularly as it relates to Medicare, TennCare/Medicaid, Charity Care, and the Medically Indigent;

The projected payor mix in the application is the applicant's good faith estimate based on past experience. It will make every effort to realize these estimated levels of payor mix.

(b) Whether the applicant commits to maintaining staffing comparable to the staffing chart presented in its CON application;

The applicant will always staff to a level that is consistent with high quality treatment and care if its patients. It will meet and maintain all staffing levels recommended or required by licensing and accrediting bodies, and comparable to those stated in the application.

(c) Whether the applicant will obtain and maintain all applicable state licenses in good standing;

Yes.

(d) Whether the applicant will obtain and maintain TennCare and Medicare certification(s), if participation in such programs was indicated in the application;

Yes, the applicant will seek and expects to attain both Medicare and TennCare certification.

(e) Whether an existing healthcare institution applying for a CON has maintained substantial compliance with applicable federal and state regulation for the three years prior to the CON application. In the event of non-compliance, the nature of non-compliance and corrective action shall be considered;

N/A; this is a proposed new health care institution.

(f) Whether an existing health care institution applying for a CON has been decertified within the prior three years. This provision shall not apply if a new, unrelated owner applies for a CON related to a previously decertified facility;

N/A; this is a proposed new health care institution.

(g) Whether the applicant will participate, within 2 years of implementation of the project, in self-assessment and external peer assessment processes used by health care organizations to accurately assess their level of performance in relation to established standards and to implement ways to continuously improve.

Yes; Meadowview ASC will participate in such quality improvement processes as part of its licensure, Medicare certification, and accreditation compliance.

(h) Whether the applicant will participate, within 2 years of implementation of the project, in self-assessment and external peer assessment processes used by health care organizations to accurately assess their level of performance in relation to established standards and to implement ways to continuously improve.

Yes; Meadowview ASC will participate in such quality improvement processes as part of its licensure, Medicare certification, and accreditation compliance.

1. This may include accreditation by any organization approved by Centers for Medicare and Medicaid Services (CMS) and other nationally recognized programs. The Joint Commission or its successor, for example, would be acceptable if applicable. Other acceptable accrediting organizations may include, but are not limited to, the following:

(ii) Accreditation Association for Ambulatory Health Care, and where applicable, American Association for Accreditation of Ambulatory Surgical Facilities, for Ambulatory Surgical Treatment Center projects.

Meadowview ASC will seek and expects to receive accreditation from the Accreditation Association for Ambulatory Health Care.

For Ambulatory Surgical Treatment Center projects, whether the applicant has estimated the number of physicians by specialty expected to utilize the facility, developed criteria to be used by the facility in extending surgical and anesthesia privileges to medical personnel, and documented the availability of appropriate and qualified staff that will provide ancillary support services, whether on- or off-site.

All of these issues have been addressed in the application.

20. Proof of Publication

Your response to this item is noted. HSDA staff will await the filing of the Publisher's Affidavit with the applicant's supplemental response.

A Publisher's Affidavit is attached following this response.

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KINGSPORT TIMES-NEWS

1428365

PUBLICATION CERTIFICATE

Kingsport, TN 7/10/18

This is to certify that the Legal Notice hereto attached was published in the Kingsport Times-News, a daily newspaper published in the City of Kingsport, County of Sullivan, State of Tennessee, beginning in the issue of July 10, 2018, and appearing 1 consecutive weeks/times, as per order of Holston Medical Group, PC

Signed Sheryl Edwards

NOTIFICATION OF INTENT TO APPLY FOR A CERTIFICATE OF NEED

This is to provide official notice to the Health Services and Development Agency and all interested parties, in accordance with T.C.A. § 68-11-1601 et seq., and the Rules of the Health Services and Development Agency, that Meadowview ASC, LLC, a Tennessee Limited Liability Company, which will have a management agreement with HMG Medical Management, LLC, intends to file an application for a Certificate of Need for the establishment of a multi-specialty ambulatory surgical treatment center (ASTC) and the initiation of outpatient surgery. The ASTC will initially have three all-inclusive operating rooms and no designated procedure rooms. Services to be provided are outpatient surgery and related ancillary services. The facility will be located at 2033 Meadowview Lane, Suite 210, Kingsport, Tennessee. The facility will be licensed as an ASTC by the Tennessee Board for Licensing Health Care Facilities. The total estimated project cost is $9,900,000.00.

The anticipated date of filing the application is July 13, 2018.

The contact person for this project is Jerry W. Taylor, Attorney, who may be reached at: Burr & Forman, LLP, 222 Second Avenue, South, Suite 2000, Nashville, Tennessee 37201, telephone number 615-724-3247.

Upon written request by interested parties, a local Fact-Finding public hearing shall be conducted. Written requests for hearing should be sent to:

Health Services and Development Agency
Andrew Jackson Building
502 Deaderick Street, 9th Floor
Nashville, Tennessee 37243

Pursuant to T.C.A. § 68-11-1609(c)(1): (A) Any health care institution wishing to oppose a Certificate of Need application must file a written notice with the Health Services and Development Agency no later than fifteen (15) days before the regularly scheduled Health Services and Development Agency meeting at which the application is originally scheduled; and (B) Any other person wishing to oppose the application must file written objection with the Health Services and Development Agency at or prior to the consideration of the application by the Agency.

PUB1T: 7/10/18

LLIVAN COUNTY, TO-WIT:

h day of July

of the Kingsport Times-News and in due form of law made oath that the foregoing statement was true to the best of my knowledge and belief.

JANICE REESER STATE OF TENNESSEE NOTARY PUBLIC WASHINGTON COUNTY

Janice Reeser
NOTARY PUBLIC

My commission expires 4-6-20

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3:09 P.M.

KINGSPORT TIMES-NEWS

1428365

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Kingsport, TN 7/10/18

This is to certify that the Legal Notice hereto attached was published in the Kingsport Times-News, a daily newspaper published in the City of Kingsport, County of Sullivan, State of Tennessee, beginning in the issue of July 10, 2018, and appearing 1 consecutive weeks/times, as per order of Holston Medical Group, PC

Signed Sheryl Edwards

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... a local Fact-Finding public ... fifteen (15) days before the regularly scheduled Health Services and Development Agency meeting at which the application is originally scheduled; and (B) Any other person wishing to oppose the application must file written objection with the Health Services and Development Agency at or prior to the consideration of the application by the Agency.

PUB1T: 7/10/18

STATE OF TENNESSEE, SULLIVAN COUNTY, TO-WIT:

Personally appeared before me this 10th day of July 2018, Sheryl Edwards of the Kingsport Times-News and in due form of law made oath that the foregoing statement was true to the best of my knowledge and belief.

JANICE REESER STATE OF TENNESSEE NOTARY PUBLIC WASHINGTON COUNTY

Janice Reeser
NOTARY PUBLIC

My commission expires 4-6-20

Every multi-specialty ASTC in the service area has controlling ownership interests held by a hospital, or where it does not have a controlling interest, the hospital has reserved powers giving it *de facto* control over insurance contracting and other important matters. While physician and hospital jointly-owned ASTCs are a very common and attractive model, there is a need for a physician controlled multi-specialty ASTC in the service area.

1) **Project cost;**

The total estimated project cost (not including the HSDA filing fee) is $9,773,127. The largest single expenditure is the imputed cost of the leasehold interest over the 10 year initial term, at a total lease cost of $4,844,049. The lease includes all space renovation costs amortized over the life of the lease. The next largest single component is fixed and movable equipment (purchased and leased) in the amount of $3,499,927.

2) **Funding;**

Funding is provided through a combination of a loan from HMG, cash from investors, and operating revenues.

3) **Financial Feasibility including when the proposal will realize a positive financial margin; and**

The surgery center will be financially feasible, and will realize a positive financial margin in Year 1 and thereafter.

4) **Staffing.**

In Year 1 the surgery center will be staffed by 13.8 FTE direct patient care providers and an additional 4 FTE contractual staff (not including the surgeons). The facility will employ an additional 4.9 FTE non-patient care staff.

B. <u>Rationale for Approval</u>

A certificate of need can only be granted when a project is necessary to provide needed health care in the area to be served, can be economically accomplished and maintained, will provide health care that meets appropriate quality standards, and will contribute to the orderly development of adequate and effective health care in the service area. This section should provide rationale for each criterion using the data and information points provided in Section B. of this application. Please summarize in one page or less each of the criteria:

1) **Need;**

The need for the proposed physician-controlled multi-specialty ASTC is based on both the high utilization of existing ASTCs in the service area, and the fact there are no solely physician-controlled multi-specialty ASTCs in the service area.

The 2017 average utilization of ASTCs of 1,245 cases per licensed ASTC surgical room far exceeds the State Health Plan (SHP) 70% capacity benchmark, and that has been the case for several years:

Year	ASTC Cases per Room	% of Need Threshold
2017	1,245	141%
2016	1,284	145%
2015	1,183	134%

The above utilization also reflects moderate growth of 5.2% over the 2 year period. The service area ASTCs are well utilized and are experiencing growth.

As reflected in Attachment Section C, Need, CON Standards, 1 a total of 48,560 surgical cases were performed in the 11 licensed ASTCs in 2017. Even with no future growth this outpatient surgery volume is enough to support 60 outpatient surgical rooms at the 70% capacity threshold of 884 cases per room. There are currently only 39 ASTC-licensed surgical rooms. The addition of 3 new ORs will still leave plenty of volume for the existing ASTCs to operate at healthy utilization levels.

There is a special need in the service area for a physician controlled multi-specialty ASTC. Every multi-specialty ASTC in the service area has controlling ownership interests held by a hospital, or where it does not have a controlling interest, the hospital has reserved powers giving it *de facto* control over insurance contracting and other important matters. While physician and hospital jointly-owned ASTCs are a very common and attractive model, there is a need for a physician controlled multi-specialty ASTC in the service area.

Since the merger of Wellmont Health Systems and Mountain States Health Alliance into Ballad Health, there is now only one hospital system operating in the entire upper East Tennessee region, thereby reducing competition. Since all multi-specialty ASTCs in the market are controlled by what are now Ballad hospitals, consumers and physicians have little choice as to the ultimate provider of ambulatory surgical services. Ballad may be considering a sale of its majority interests in area ASTCs to another heath care system. But even if this were to occur, there would still be no physician-controlled multi-specialty ASTCs in the service area, and consumer and provider choice would still be limited.

As a physician-controlled facility, Meadowview will facilitate several enhancements to the health care delivery system in the area, and resulting benefits to patients and physicians. These include (1) value-based contracting with third party payors; (2) innovative and mutually beneficial arrangements with Medicare/CMS such as gain-sharing arrangements; (3) lower pricing structures which decrease out of pocket costs to patients; and (4) more physician control over management of the surgery center.

1) **Economic Feasibility;**

The proposed ASTC is economically feasible. The project costs are commercially reasonable. Most of the project cost consists of the imputed cost of the leasehold interest which is the total amount of lease payments over the initial 10 year term of the lese. These costs will be paid out of the operating revenues of the facility. The out of pocket capital costs will be funded through a combination of a loan from HMG,

cash from investing surgeons, and operating revues. The surgery center will realize a positive financial margin in Year 1 and thereafter.

3) Appropriate Quality Standards; and

Meadowview ASC will be licensed by the Tennessee Board for Licensing Health Care Facilities. It will be accredited by the Accreditation Association for Ambulatory Health Care (AAAHC). Meadowview ASC will meet or exceed all licensing and accreditation standards for quality of care.

Meadowview ASC will have a management services agreement with HMG Medical Management, LLC. HMG Medical Management, LLC, has extensive experience in managing surgery centers, having managed both Holston Valley Ambulatory Surgery Center and Sapling Grove Ambulatory Surgery Center since 2006.

4) Orderly Development to adequate and effective health care.

This proposal will have a positive effect on competition, consumer and provider choice, and heath care costs. It will thus contribute to the orderly development of adequate and effective health care.

There is a special need in the service area for a physician controlled multi-specialty ASTC. Every multi-specialty ASTC in the service area has controlling ownership interests held by a hospital, or where it does not have a controlling interest, the hospital has reserved powers giving it *de facto* control over insurance contracting and other important matters. While physician and hospital jointly-owned ASTCs are a very common and attractive model, there is a need for a physician controlled multi-specialty ASTC in the service area.

Since the merger of Wellmont Health Systems and Mountain States Health Alliance into Ballad Health, there is now only one hospital system operating in the entire upper East Tennessee region, thereby reducing competition. Since all multi-specialty ASTCs in the market are controlled by what are now Ballad hospitals, consumers and physicians have little choice as to the ultimate provider of ambulatory surgical services. Ballad may be considering a sale of its majority interests in area ASTCs to another heath care system. But even if this were to occur, there would still be no physician-controlled multi-specialty ASTCs in the service area, and consumer and provider choice would still be limited.

As a physician-controlled facility, Meadowview will facilitate several enhancements to the health care delivery system in the area, and resulting benefits to patients and physicians. These include (1) value-based contracting with third party payors; (2) innovative and mutually beneficial arrangements with Medicare/CMS such as gain-sharing arrangements; (3) lower pricing structures which decrease out of pocket costs to patients; and (4) more physician control over management of the surgery center.

This proposal would not represent an unnecessary duplication of services. ASTCs in the service area are operating well above the utilization threshold in the Sate Heath Plan, measured by the number of surgical cases per licensed ambulatory surgical room. This proposal would bring additional outpatient surgical capacity, with no significant negative impact on utilization volumes of existing ASTCs.

Nor would this proposal have a negative effect on competition. The State of Tennessee's public policy to promote and protect health care competition in the area

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determining the utilization of existing ASTCs is the total number of cases per room, including both ORs and PRs.

The 2017 average utilization of ASTCs of 1,245 cases per licensed ASTC surgical room far exceeds the State Health Plan (SHP) threshold of 884 cases per room. The average area-wide utilization has exceeded the 70% capacity benchmark for several years:

ASTC Utilization	Cases per Room	% of Need Threshold (884 cases or 70% of capacity)
2017	1,245	141%
2016	1,284	145%
2015	1,183	134%

The above utilization also reflects growth of 5.2% over the 2 year period. Clearly the service area ASTCs are well utilized and are experiencing growth. An additional ASTC is needed.

There are 4 hospitals in the service area which provide both inpatient and outpatient surgery. In 2016, the latest year for which JAR information is available, the average number of surgical cases per room was 670. Because not all hospitals have ORs dedicated to outpatient surgery, and those which do can change those designations at will, it is not possible to accurately segregate and gage the outpatient utilization rate of these hospitals. Moreover, because of the obvious differences between hospitals and ASTCs as facilities for outpatient surgery, an analysis of the availability of hospital based ORs for outpatient surgery is of little value or relevance.

1. Need and Economic Efficiencies. An applicant must document the potential impact that the proposed new ASTC would have upon the existing service providers and their referral patterns. A CON application to establish an ASTC or to expand existing services of an ASTC should not be approved unless the existing ambulatory surgical services that provide comparable services regarding the types of Cases performed, if those services are known and relevant, within the applicant's proposed Service Area or within the applicant's facility are demonstrated to be currently utilized at 70% or above.

The 2017 average utilization of ASTCs of 1,245 cases per licensed ASTC surgical room far exceeds the State Health Plan (SHP) 70% capacity benchmark, and that has been the case for several years:

ASTC Utilization	Cases per Room	% of Need Threshold (884 cases or 70% of capacity)
2017	1,245	141%
2016	1,284	145%
2015	1,183	134%

The above utilization also reflects growth of 5.2% over the 2 year period. Clearly the service area ASTCs are well utilized and are experiencing growth. An additional ASTC is needed.

As reflected in Attachment Section C, Need, CON Standards, 1 a total of 48,560 cases were performed in the 11 licensed ASTCs in 2017. Even with no future growth this outpatient surgery

D. 1) a) Describe the demographics of the population to be served by the proposal.

b) Using current and projected population data from the Department of Health, the most recent enrollee data from the Bureau of TennCare, and demographic information from the US Census Bureau, complete the following table and include data for each county in your proposed service area.

Projected Population Data: http://www.tn.gov/health/article/statistics-population

TennCare Enrollment Data: http://www.tn.gov/tenncare/topic/enrollment-data

Census Bureau Fact Finder: http://factfinder.census.gov/faces/nav/jsf/pages/index.xhtml

** Target Population is population that project will primarily serve. For example, nursing home, home health agency, hospice agency projects typically primarily serve the Age 65+ population; projects for child and adolescent psychiatric services will serve the Population Ages 0-19. Projected Year is defined in select service-specific criteria and standards. If Projected Year is not defined, default should be four years from current year, e.g., if Current Year is 2016, then default Projected Year is 2020.*

A table reflecting the requested information is attached as Attachment Section C, Need, 4, A. The Projected Year is based on a four year planning horizon, 2022. The target population is ages 18+. Although the ASTC will serve all ages of patients the majority will be adults, so ages 18+ is used as the target population for the sake of demographic comparisons.

2) Describe the special needs of the service area population, including health disparities, the accessibility to consumers, particularly the elderly, women, racial and ethnic minorities, and low-income groups. Document how the business plans of the facility will take into consideration the special needs of the service area population.

As compared to the state as a whole the PSA: (1) has lower projected population growth; (2) a higher median age; (3) lower household income; (4) a higher percentage of persons below poverty level; and (5) a higher percentage of TennCare enrollees.

As reflected in the Certificate of Public Advantage (COPA) granted to Ballad Health by the Tennessee Department of Health, the area as identified in the COPA (which area is larger than the PSA) experiences significant health disparities on a national and statewide basis.

Meadowview ASC will be accessible to all consumers regardless of socio-economic status. Meadowview will participate in Medicare, TennCare and numerous commercial health plans. While it may not be in-network with every single health plan, it will participate in as many as is economically feasible.

There is a special need in the service area for a physician controlled multi-specialty ASTC. Every multi-specialty ASTC in the service area has controlling ownership interests held by a hospital, or, where it does not have a controlling interest, the hospital has reserved powers giving it *de facto* control over insurance contracting and other important matters. While physician and hospital jointly-owned ASTCs are a very common and attractive model, there is a need for a physician controlled multi-specialty ASTC in the service area.

Since the merger of Wellmont Health Systems and Mountain States Health Alliance into Ballad Health, there is now only one hospital system operating in the entire upper East Tennessee region, thereby reducing competition. Since all multi-specialty ASTCs in the market are controlled by what are now Ballad hospitals, consumers and physicians have little choice as to the ultimate provider of ambulatory surgical services. Ballad may be considering a sale of its majority interests in area ASTCs to another heath care system. But even if this were to occur, there would still be no physician-controlled multi-specialty ASTCs in the service area, and consumer and provider choice would still be limited.

As a physician-controlled facility, Meadowview will facilitate several enhancements to the health care delivery system in the area, and resulting benefits to patients and physicians. These include (1) value-based contracting with third party payors; (2) innovative and mutually beneficial arrangements with Medicare/CMS such as gain-sharing arrangements; (3) lower pricing structures which decrease out of pocket costs to patients; and (4) more physician control over management of the surgery center.

E. Describe the existing and approved but unimplemented services of similar healthcare providers in the service area. Include utilization and/or occupancy trends for each of the most recent three years of data available for this type of project. List each provider and its utilization and/or occupancy individually. Inpatient bed projects must include the following data: Admissions or discharges, patient days, average length of stay, and occupancy. Other projects should use the most appropriate measures, e.g., cases, procedures, visits, admissions, etc. This doesn't apply to projects that are solely relocating a service.

There are 11 ASTCs located in Sullivan County. Of these, 5 are multi-specialty surgery centers and 6 are single-specialty surgery centers. There are no ASTCs in Hawkins County.

In 2017 the average utilization of all surgical rooms in licensed ASTCs was 1,245 cases per room. The average utilization of operating rooms ("ORs") in licensed ASTCs was 772 cases per room. The average utilization of procedure rooms ("PRs") was 1,743 cases per room.

There are 4 hospitals in the service area which provide both inpatient and outpatient surgery. In 2016, the latest year for which JAR information is available, the average number of surgical cases per room was 670. Because not all hospitals have ORS dedicated to outpatient surgery, and those which do can change those designations at will, it is not possible to accurately segregate and gage the outpatient utilization rate of these hospitals. Moreover, because of the obvious differences between hospitals and ASTCs as facilities for outpatient surgery, an analysis of the availability of hospital based ORs for outpatient surgery is of little value.

A table reflecting detailed utilization data for ASTCs in the service area for 2015-2017 is attached as <u>Attachment Section C, CON Standards, 1</u>.

F. Provide applicable utilization and/or occupancy statistics for your institution for each of the past three years and the projected annual utilization for each of the two years following completion of the project. Additionally, provide the details regarding the methodology used to project utilization. The methodology <u>must include</u> detailed calculations or documentation from referral sources, and identification of all assumptions.

This is a proposed new facility, so there is no historical utilization data. The projected utilization for the first two years of operations is reflected below:

AVERAGE NET CHARGES - MUTISPECIALTY ASTCs 2017

Facility	Total Net Revenue	Total Cases	Net Charge per Case
Bristol Surgery Center	$9,826,923	2403	$4,089
Kingsport ASC	$4,826,094	2848	$1,695
Sapling Grove ASC	$3,200,144	1652	$1,937
Holston Valley Surgery Ctr.	$9,463,423	7058	$1,341
Renaissance Surgery Ctr.	$774,249	1350	$574
Total/Avg.	$28,090,833	15311	**$1,835**

Source: 2017 Joint Annual Reports

F. **1) Discuss how projected utilization rates will be sufficient to support the financial performance. Indicate when the project's financial breakeven is expected and demonstrate the availability of sufficient cash flow until financial viability is achieved. Provide copies of the balance sheet and income statement from the most recent reporting period of the institution and the most recent audited financial statements with accompanying notes, if applicable. For all projects, provide financial information for the corporation, partnership, or principal parties that will be a source of funding for the project. Copies must be inserted at the end of the application, in the correct alpha-numeric order and labeled as Attachment Section B-Economic Feasibility-6A.**

NOTE: Publicly held entities only need to reference their SEC filings.

AS reflected in the Projected Data Chart, Meadowview ASC will be profitable in the first year of operations and thereafter.

Audited financial statements of HMG are attached as Attachment Section C, Economic Feasibility, 6.

2) Net Operating Margin Ratio – Demonstrates how much revenue is left over after all the variable or operating costs have been paid. The formula for this ratio is: (Earnings before interest, Taxes, and Depreciation/Net Operating Revenue).

Utilizing information from the Historical and Projected Data Charts please report the net operating margin ratio trends in the following table:

Year	2nd Year previous to Current Year	1st Year previous to Current Year	Current Year	Projected Year 1	Projected Year 2
Net Operating Margin Ratio	N/A	N/A	N/A	0.265	0.276

3) **Capitalization Ratio (Long-term debt to capitalization) – Measures the proportion of debt financing in a business's permanent (Long-term) financing mix. This ratio best measures a business's true capital structure because it is not affected by short-term financing decisions. The formula for this ratio is: Long Term Debt/(Long Term Debt + Total Equity) x 100.**

For the entity (applicant and/or parent company) that is funding the proposed project please provide the capitalization ratio using the most recent year available from the funding entity's audited balance sheet, if applicable. The Capitalization Ratios are not expected from outside the company lenders that provide funding.

N/A. The applicant is a new entity and has no long term debt.

G. **Discuss the project's participation in state and federal revenue programs including a description of the extent to which Medicare, TennCare/Medicaid and medically indigent patients will be served by the project. Additionally, report the estimated gross operating revenue dollar amount and percentage of projected gross operating revenue anticipated by payor classification for the first year of the project by completing the table below.**

Meadowview ASC will participate in the Medicare and TennCare programs to help insure access to the elderly and to lower income individuals. The projected payor mix and anticipated revenues by payor are reflected below.

Applicant's Projected Payor Mix, Year 1

Payor Source	Projected Gross Operating Revenue	Revenue as a % of total
Medicare/Medicare Managed Care	$2,315,762	19.09%
TennCare/Medicaid	$903,787	7.45%
Commercial/Other Managed Care	$8,382,277	69.11%
Self-Pay	$11,953	0.10%
Other(Specify): Government/Veterans	$514,643	4.25%
Total	$12,128,422*	100%

* The slight discrepancy from the PDC is due to rounding.

H. **Provide the projected staffing for the project in Year 1 and compare to the current staffing for the most recent 12-month period, as appropriate. This can be reported using full-time equilavent (FTEs) positions for these positions. Additionally, please identify projected salary amounts by position classifications and compare the clinical staff salaries to prevailing wage patterns in the proposed service area as published by the Department of Labor & Workforce Development and/or other documented sources.**

Position Classification	Existing FTEs (2017)	Projected FTEs Year 1	Average Wage (Contractual Rate)	Area Wide/Statewide Average Wage
a. Direct Patient Care Positions				
Circulating Charge Nurse	0	1.0	$30.42	$28.41
Circulating Nurse	0	0.9	$23.92	$28.41

JUL 23 18 PM3:09

Supplemental #1
July 23, 2018
3:09 P.M.

AFFIDAVIT

STATE OF TENNESSEE)
)
COUNTY OF SULLIVAN)

RE: MEADOWVIEW ASC, LLC

I, **Scott R. Fowler, J.D., M.D.**, after first being duly sworn, states under oath that I am the Sole Member and President of the applicant named in this Certificate of Need application, that I have reviewed all of the supplemental information submitted herewith, and that it is true, accurate, and complete.

Scott R. Fowler, J.D., M.D., President

Sworn to and subscribed before me this the 23rd day of July, 2018, a Notary Public in and for Sullivan County, Tennessee.

Dani R Moreland
Notary Public

DANI R. MORELAND STATE OF TENNESSEE NOTARY PUBLIC WASHINGTON COUNTY

My Commission Expires: December 3, 2020

Supplemental #2
(Original)

Meadowview ASC, LLC

CN1807-028

Supplemental #2
July 30, 2018
2:52 P.M.

JUL 30 '18 PM 2:52

SECOND SUPPLEMENTAL RESPONSES

CERTIFICATE OF NEED APPLICATION

FOR

MEADOWVIEW ASC, LLC

The Establishment of a Multi-Specialty Ambulatory Surgical Treatment Center

Sullivan County, Tennessee

Project No. CN1807-028

July 30, 2018

Contact Person:

Jerry W. Taylor, Esq.
Burr & Forman, LLP
222 Second Avenue South, Suite 2000
Nashville, Tennessee 37201
615-724-3247

1. **Section A, Project Details, Item 6A. Legal Interest in Site**

   Your response to this item is noted.

   Please provide the signature pages for the Master Lease Amendment between Ziegler-Tennessee 14, LLC and Holston Medical Group, P.C.

   A copy of the entire Master Lease Amendment is attached following this response.

Supplemental #2
July 30, 2018
2:52 P.M.

MASTER LEASE AMENDMENT TO MEADOWVIEW PROFESSIONAL BUILDING LEASE

THIS MASTER LEASE AMENDMENT TO MEADOWVIEW PROFESSIONAL BUILDING LEASE ("**Amendment**") is dated this 21st day June, 2018, by and between **ZIEGLER-TENNESSEE 14, LLC,** a Wisconsin limited liability company, as successor in interest to HMG Meadowview, LLC ("**Landlord**"), and **HOLSTON MEDICAL GROUP, P.C.,** a Tennessee professional corporation ("**Tenant**").

WITNESSETH

WHEREAS, Landlord and Tenant are parties to that certain medical office building lease, dated October 7, 2003, as amended by that certain First Amendment to Lease, dated May 1, 2007 and as further amended by that certain Second Amendment to Lease Agreement, dated August 23, 2010 ("collectively, the "**Suites 100/200 Lease**"), whereby Tenant leases approximately 37,144 rentable square feet known as Suites 100 and 200 in the building commonly known as the Meadowview Professional Building, located at 2033 Meadowview Lane, Kingsport, Tennessee (the "**Property**"), and as more particularly described in the Lease;

WHEREAS, Landlord and Tenant are also parties to that certain medical office building lease, dated March 14, 2007, as amended by that certain First Amendment to Lease Agreement, dated August 23, 2010 (collectively, the "**Suite 110 Lease**," and collectively with the Suites 100/200 Lease, the "**Leases**"), whereby Tenant leases approximately 5,076 rentable square feet known as Suite 110 at the Property, as more particularly described in the Lease;

WHEREAS, Landlord and Tenant acknowledge and agree that from and after the date hereof (as hereinafter defined), (a) the Suites 100/200 Lease and Suite 110 Lease shall be combined into the Suites 100/200 Lease such that the Suites 100/200 Lease shall be the only lease agreement in effect between Landlord and Tenant for the Property; (b) the terms and conditions of the Suites 100/200 Lease shall supersede in their entirety the terms and conditions in all other leases between Landlord and Tenant relating to any portion of the Property; and (c) this Amendment is intended to amend those provisions in the Suites 100/200 Lease as expressly provided herein;

WHEREAS, Landlord and Tenant desire to amend the Suites 100/200 Lease, as set forth in this Amendment.

AGREEMENT

NOW, THEREFORE, Landlord and Tenant, in consideration of the mutual covenants and agreements herein contained, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound hereby, covenant and agree as follows:

1. Recitals; Capitalized Terms. The above recitals are hereby incorporated into this Amendment. Capitalized terms used herein but not defined shall have the meaning ascribed to them in the Suites 100/200 Lease.

2. Premises. Commencing on the Effective Date (as defined below), the "Premises" shall consist of the following: Suite 100, Suite 110 and Suite 200. The total rentable square footage of the Premises shall be equal to forty-two thousand two hundred twenty (42,220) square feet.

3. Term. The Lease Term shall be extended for an additional one-hundred ninety-six (196) months, commencing on September 1, 2018 (the "**Effective Date**") and terminating on December 31, 2034.

4. Lease Renewals.

(a) The Lease Term shall automatically renew for successive five (5) year periods (collectively, the "**Extended Terms**" and each, an "**Extended Term**"), unless Tenant provides written notice to Landlord at least twelve (12) months prior to the expiration of then current Lease Term, of Tenant's election to terminate the Lease. Except as otherwise provided, the Extended Terms shall be on the same terms and conditions as set forth in the Lease. All references to the "**Term**" of the Lease or "**Lease Term**" shall, unless the context shall clearly indicate a different meaning, be deemed to constitute a reference to the original Lease Term and the Extended Terms, as the same may be exercised hereunder.

(b) Basic Annual Rent for each lease year of the Extended Terms shall be adjusted to equal the amount of the Basic Annual Rent payable during the immediately preceding Lease Year, as increased by two and 50/100ths percent (2.50%). Section 3(c) of the Suites 100/200 Lease is hereby deleted in its entirety.

(c) All other references to "options to renew" or "renewal options" in the Leases are hereby deleted in their entirety.

5. Tenant's Pro Rata Share: Commencing on the Effective Date, "Tenant's Pro Rata Share" of Operating Expenses shall be sixty-five and seventy-six one-hundredths percent (65.76%).

6. Basic Annual Rent. Commencing on the Effective Date, Basic Annual Rent for the Lease Term shall be paid to Landlord pursuant to the Basic Annual Rent Schedule set forth on the attached Exhibit A.

7. Additional Rent. Section 6(b) is deleted in its entirety and replaced with the following:

6(b) Tenant shall pay to Landlord for each calendar year, or any portion thereof, during the Term of this Lease, as the same may be extended or renewed from time to time, as Additional Rent, its Proportionate Share of Operating Expenses (as such terms are hereinafter defined). As used in this Lease, the term "**Operating Expenses**" shall mean all operating expenses of any kind or nature with respect to the ownership, operation, management, maintenance and repair of the Building, Land and the Property.

If the Building is not fully leased and occupied during all or any portion of any calendar year, Landlord may, using sound accounting and property management principles, adjust all Operating Expenses that are variable (which shall include, without limitation, costs and expenses of utilities and janitorial services and management fees) and, therefore, increase as leasing and occupancy of the Building increases (the "**Variable Components**"), to equal what would have been paid or incurred by Landlord had the Building been fully leased and occupied during such calendar year and the amount so determined shall be deemed to have been Operating Expenses for such year (an "**Equitable Adjustment**"). The Equitable Adjustment will not, in any event, result in Landlord receiving from Tenant and other Building tenants in connection with the Variable Components more than one hundred percent (100%) of the cost of the Variable Components. Landlord may incorporate the Equitable Adjustment in its estimates of Operating Expenses.

During December of each year or as soon thereafter as practicable, Landlord shall give Tenant written notice of its estimate of Tenant's Proportionate Share of Operating Expenses for the ensuing calendar year. On or before the first (1st) day of each month thereafter during such calendar year, in addition to Base Rent due hereunder at such time, Tenant shall pay a monthly installment equal to one-twelfth (1/12th) of Tenant's Proportionate Share of Operating Expenses as estimated in such notice, if any, for such calendar year. If Landlord fails to deliver such statement prior to January 1 of the applicable year, Tenant shall pay one-twelfth (1/12th) of Tenant's Proportionate Share of Operating Expenses for the prior year, if any, until such written notice is received. Upon receipt of Landlord's written notice, to the extent the new estimate is greater than the estimates paid to date for such calendar year, a lump sum payment shall be made in the next monthly payment to adjust for such differential and thereafter Tenant shall pay one-twelfth (1/12th) of Tenant's Proportionate Share of Operating Expenses as set forth in the new estimate. If at any time it appears to Landlord that Tenant's Proportionate Share of Operating Expenses payable under this paragraph for the then current calendar year will vary from its estimate by more than five percent (5%), Landlord may, by written notice to Tenant, revise its estimate of Tenant's Proportionate Share of Operating Expenses for such year, and subsequent payments by Tenant for such year shall be based upon such revised estimate.

Within ninety (90) days after the end of each calendar year during the Term, or as soon thereafter as practicable, Landlord shall furnish to Tenant a written statement (**"Landlord's Statement"**) of actual Operating Expenses and Tenant's Proportionate Share of Operating Expenses for the previous calendar year. A lump sum payment (which payment shall be considered a payment of Rent for all purposes) will be made by Tenant, within thirty (30) days of the delivery of Landlord's Statement, equal to the excess, if any, of the actual amount of Tenant's Proportionate Share of Operating Expenses over all amounts paid by Tenant hereunder with respect to Tenant's Proportionate Share of Operating Expenses for the preceding calendar year. If the amount of Tenant's Proportionate Share of the Operating Expenses is less than the estimated amounts paid by Tenant hereunder with respect to Tenant's Proportionate Share of Operating Expenses for such calendar year, Landlord shall apply the difference (the **"Excess Overage"**) to the next accruing installment of Rent due hereunder or, if necessary, subsequently accruing installments of Rent until the entire Excess Overage amount is credited; provided that if the Term of this Lease has expired at the time Landlord's Statement is delivered, Landlord shall refund the amount of any Excess Overage within thirty (30) days of the issuance of Landlord's Statement. Tenant or its representatives shall have the right to examine Landlord's books and records of Operating Expenses during normal business hours and at a location solely designated by Landlord within twenty (20) days following the furnishing of the Landlord's Statement to Tenant. Unless Tenant takes written exception to any item within thirty (30) days following the furnishing of the Landlord's Statement to Tenant (which item shall be paid in any event), the Landlord's Statement shall be considered as final and accepted by Tenant.

In the event Tenant's Proportionate Share of Operating Expenses for the final calendar year of the Term is not finally calculated until after the expiration of the Term, then Tenant's obligation to pay the same and Landlord's obligation to refund any Excess Overage shall survive the expiration or termination of this Lease. Accordingly, Landlord shall have the right to continue to hold Tenant's security deposit, if any, following expiration of the Term until Tenant's Proportionate Share of Operating Expenses has been paid in full, unless an alternative security (letter of credit or otherwise) is furnished to the satisfaction of

Landlord. Tenant's Proportionate Share of Operating Expenses for the calendar years in which the Term commences and ends, if any, shall be prorated on the basis of the number of days of the Term within each such calendar year.

If Landlord selects the accrual accounting method rather than the cash accounting method for operating expense purposes, Operating Expenses shall be deemed to have been paid when such expenses have accrued.

As used herein, Tenant's "**Proportionate Share**" shall mean a fraction, the numerator of which is the gross rentable area of the Premises and the denominator of which is the gross rentable area contained in the Building, in each case as is determined by Landlord. Notwithstanding the foregoing, in the event of special circumstances where a component of Operating Expenses is not being used by or should not be allocated to all tenants in the Building (i.e., a tenant in the Building other than Tenant is tax exempt and renders that tenant's premises exempt from real estate taxes or another tenant in the Building has electricity separately metered to its premises), the Landlord may recalculate the Tenant's Proportionate Share with respect to such special circumstances in Landlord's reasonable discretion (e.g., in the case of a portion of the Building which is exempt from real estate taxes, Tenant's Proportionate Share of real estate taxes for the Building would be a fraction, the numerator of which shall be the gross rentable area of the Premises and the denominator of which shall be the gross rentable area in the Building less the gross rentable area in the Building exempt from real estate taxes, in each case as determined by Landlord). Landlord shall have the right to re-determine the rentable areas of the Building and the Premises from time to time pursuant to this Section Error! Reference source not found.4, whether it be as a result of the conversion of the Building to a condominium, a re-measurement of the spaces by Landlord or other Building modifications.

As used herein, the term "**Additional Rent**" shall mean all sums payable by Tenant under this Lease other than Base Rent.

8. Automated Clearing House Authorization. Commencing on the Effective Date, all Basic Annual Rent required to be paid by Tenant shall be paid pursuant to that certain Authorization Agreement for Direct Deposits attached hereto as Exhibit B, which Tenant shall complete as part of this Amendment.

9. Right Of First Refusal. If, during the Term, Landlord elects to lease that certain space within the Building commonly known as Suite 300 (the "**Additional Space**") to a third party tenant unrelated to the current tenant of the Additional Space, and provided that this Lease is in full force and effect, Tenant shall have, and Landlord does hereby grant to Tenant a right of first refusal to lease the Additional Space (the "**Right of First Refusal**"). Tenant's Right of First Refusal shall be on the same terms and at the same price as any executed letter of intent ("**LOI**") executed by a third party tenant unrelated to the current tenant of the Additional Space and Landlord. Upon receipt of a fully executed LOI, Landlord shall promptly provide Tenant with written notice of the details of such LOI (the "**LOI Notice**"). Tenant shall have ten (10) days from receipt of the LOI Notice to elect, in writing, to exercise the Right of First Refusal, provided that at the time of exercising such Right of First Refusal, Tenant is not then in default beyond any applicable cure period. Any failure of Tenant to elect to exercise the Right of First Refusal (without any modification of the terms of the LOI Notice) in writing within such ten (10) day period shall constitute an election to not exercise the Right of First Refusal. If Tenant elects to exercise the Right of First Refusal, within ten (10) days following Tenant's election, Landlord and Tenant shall enter into an amendment to this Lease or, in the alternative upon mutual agreement by the parties, a separate lease for the Additional Space, incorporating the terms and conditions of the LOI Notice. If Tenant elects (or is deemed to have elected) to not exercise the Right of First Refusal or if Tenant refuses to timely enter into

the lease or lease amendment referenced in the preceding sentence, Landlord may lease the Additional Space to the original third party tenant set forth in the LOI upon the same terms and conditions as were stated in the LOI Notice and, upon execution of the lease with said third party tenant, the Right of First Refusal granted herein shall automatically terminate and be of no further force or effect including, without limitation, to any further leasing of the Additional Space by Landlord. Upon delivery of the Premises to Tenant, Tenant shall execute and deliver to Landlord the Commencement Date Agreement, which shall set forth the square feet of rentable area of the Additional Space. All other references to a "right of first refusal" or a "right of first opportunity" set forth in the Suites 100/200 Lease are hereby deleted in their entirety.

10. Tenant Improvement Allowance. Landlord shall provide Tenant with a tenant improvement allowance not to exceed One Million and 00/100ths Dollars ($1,000,000.00) (the "**Improvement Allowance**") to be used for Tenant's leasehold improvements of the Premises (the "**Leasehold Work**") and Tenant shall perform the Leasehold Work, as more particularly set forth on Exhibit C attached to this Amendment and incorporated by reference herein. Any improvements to the Premises in excess of Improvement Allowance, and any other improvements to the Premises, shall be made by Tenant at the sole cost and expense of Tenant, subject to all other provisions of the Suites 100/200 Lease. The Improvement Allowance shall be used by Tenant by December 31, 2021 or shall be deemed forfeited.

11. Notices. The Suites 100/200 Lease is hereby amended to reflect the following addresses for Landlord for payment of all amounts due Landlord and all notices:

For payment purposes only:

ZIEGLER-TENNESSEE 14, LLC
c/o Physicians Realty L.P.
P.O. Box 78417
Milwaukee, Wisconsin 53202-8417

For notice purposes only:

ZIEGLER-TENNESSEE 14, LLC
c/o Physicians Realty L.P.
309 North Water Street, Suite 500
Milwaukee, Wisconsin 53202
Attn: Legal Department

12. Complete Agreement. The Suites 100/200 Lease, as modified by this Amendment, constitutes the entire agreement between Landlord and Tenant, and supersedes all previous understandings, letters of intent and agreements between the parties, if any; and no oral or implied representation or understandings shall vary its terms.

13. Successors and Assigns. All covenants and agreements hereunder shall be binding upon and inure to the benefit of and be enforceable by or against each of the parties hereto and their respective successors and assigns.

14. Severability. In the event any one or more of the provisions contained in this Amendment should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein or therein shall not in any way be affected or impaired thereby.

15. Headings. Section headings used herein are for convenience of reference only and are

not to affect the construction of, or to be taken into consideration in interpreting this Amendment.

16. Conflicts. In the event of any conflict or inconsistency between the terms and provisions of this Amendment and those of the Suites 100/200 Lease, the terms and provisions of this Amendment shall govern and control to the extent of such conflict or inconsistency.

17. Full Force and Effect. Except as expressly modified herein, the other terms and conditions set forth in the Suites 100/200 Lease shall continue in full force and effect.

18. Counterparts. This Amendment may be executed in multiple original counterparts, all of which taken together shall constitute one and the same instrument.

19. Facsimile Signature. This Amendment may be executed by facsimile or electronic mail and a facsimile or electronic mail signature shall have the same legal effect as an original signature.

20. Authority. Each signatory hereto has all requisite power and authority to enter into this Amendment and to carry out its obligations hereunder.

[Signatures Appear on Following Page]

Supplemental #2
July 30, 2018
2:52 P.M.

IN WITNESS WHEREOF, the parties have executed this Amendment as of the day and year first above written.

LANDLORD:

ZIEGLER-TENNESSEE 14, LLC

By: Physicians Realty L.P., its Manager

By: Physicians Realty Trust, its General Partner

DocuSigned by:
Mark D. Theine
AA065329E3E2451

By:______________________
Mark D. Theine
SVP – Asset and Investment Management

TENANT:

HOLSTON MEDICAL GROUP, P.C.

By:______________________
Name: Scott R. Fowler, J.D., M.D.
Title: President & CEO

Signature Page to Master Lease Amendment

2. **Section B, Need, Item F (Applicant)**

   According to the data provided regarding the volumes of surgeries performed by HMG physicians by location, it is expected almost 4,000 cases currently being performed at Holston Valley ASC will shift to the proposed project. This amount is equivalent to over 56% of the cases perfumed at Holston Valley ASC. In 2017 Holston Valley ASC OR volumes were at 77% of the minimum operating room standard and 70% of the minimum procedure room standard.

   Please discuss the impact of the proposed project on the continued financial viability of Holston Valley ASC?

   Applicant does not believe this will significantly impact Holston Valley Ambulatory Surgery Center because of changes taking place in the PSA. Ballad Health has announced that it will close Kingsport Ambulatory Surgery Center, LLC, d/b/a Kingsport Day Surgery and combine it with Holston Valley Ambulatory Surgery Center. This will result in the reduction of 4 ORs and 1 PR in the PSA.

   In addition, Applicant is aware that Watauga Orthopedics will hire 3 new physicians in the August/September timeframe, and HMG will hire a new general surgeon in September.

   Applicant believes that its additional rooms are needed to provide sufficient operating and procedures rooms in the community given these closures and additional use needs.

3. **Section B. Economic Feasibility Item B Funding**

   Are the annual lease expenses for building, land, and equipment accounted for in the Projected Data Chart?

   Yes. The lease payments for the building and land, and for the equipment leases, are all included in D, 4, b of the Projected Data Chart.

4. **Quality Measures**

   What are the applicant's plans to secure anesthesia services?

   The applicant will contract with a local anesthesiology group at the appropriate time. The applicant has already been approached by a local anesthesia group with experience in providing services in an ASTC setting. Once the CON is granted, the applicant will begin negotiating with various anesthesia groups for coverage of the ASTC.

Supplemental #2
July 30, 2018
2:52 P.M.

JUL 30 '18 PM2:52

AFFIDAVIT

STATE OF TENNESSEE

COUNTY OF SULLIVAN

I, **Scott R. Fowler, J.D., M.D.**, after first being sworn, states under oath that I am the Sole Member and President of the applicant named in this Certificate of Need application, that I have reviewed all of the supplemental information submitted herewith, and that it is true, accurate, and complete.

Scott R. Fowler, J.D., M.D., President

Sworn to and subscribed before me this the 30th day of July, 2018, a Notary Public in and for Sullivan County, Tennessee.

NOTARY PUBLIC

STATE OF TENNESSEE NOTARY PUBLIC WASHINGTON COUNTY

My commission expires December 5, 2020